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BOOKS...

For the Business Man

THE FIFTH COLUMN IS HERE

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Wilfred Funk $1.00

Here are the more important facts on the location, organization, members, and plans of the Fifth Columnists, who now number a million and occupy strategic positions in the United States.

WINSTON CHURCHILL

RENE KRAUS
J. B. Lippincott Co. 366 pg. $3.00.

Mr. Kraus does a splendid job of tracing Churchill's colorful career. He tells how Churchill time and time again was forced out of politics only to make a more determined bid to get in again. Tht author discusses Mr. Churchill's uncanny foresight and predictions. How he foresaw Munich and yet was not heeded until England's darkest moment had come. Now as Prime Minister he is trying to steer a war torn England to peaceful shores.

THE ECONOMICS OF WAR

HORST MENDERSHAUSEN
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The "Economics of War" may be broken down into four parts. The 1st part discusses the needs of a nation at war, raw materials, man power, transportation, etc. The 2nd touches on price control, rationing of goods and other war economies. The 3rd part takes in foreign trade, shipping and neutrals. The final part deals with economics after the war.

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Mr. Schuster has selected with great care the letters used in his book a Treasury of the World's Great Letters. He has chosen letters of all descriptions, love, historical, friendly, etc., from more than twenty-two centuries. These letters bring to life once again people such as Benjamin Franklin, Henry the VIII, Robespierre, Robert Louis Stevenson as well as many others.

I SAW IT HAPPEN IN NORWAY

CARL J. HAMBRO
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Mr. Hambro puts aside as propaganda the stories that Norway fell because of treachery on the part of Norwegians. He claims it was lack of preparedness and German organizations and fifth column activity. The author gives a thumbnail sketch of Maj. Quisling the puppet ruler of Norway. He also discusses the fate of Norway under a Germany victory and under a British victory. He reaches the conclusion that if Britain should win Norway would undergo some change along with the rest of Europe. This would have to be because of the difficulty encountered in giving effective assistance to small countries by their refusal to enter into military arrangements with England.

I SAW FRANCE FALL

RENE DE CHAMBRUN
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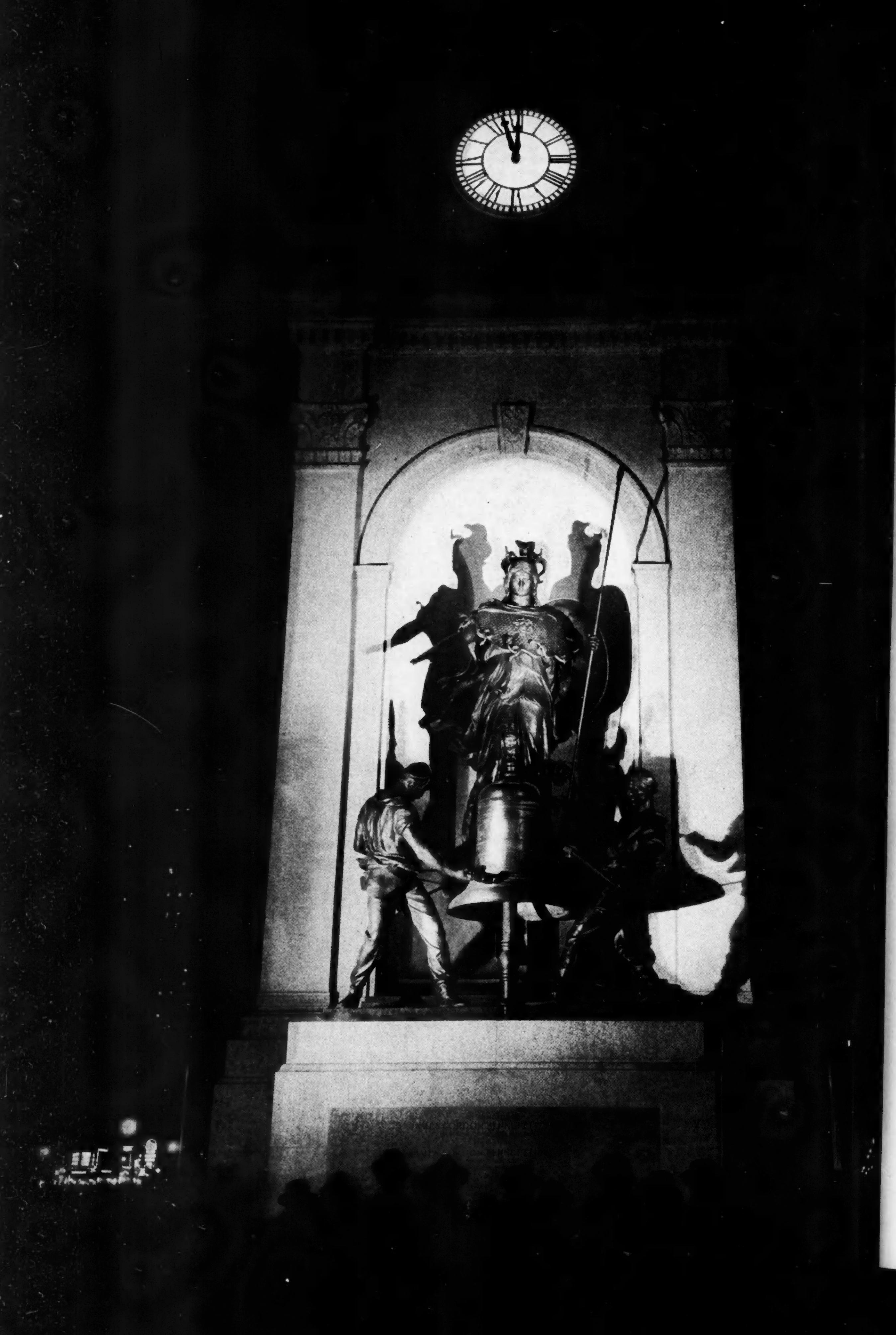
A vivid, first hand account of developments leading up to the fall of France told by a French army officer. . . . Colorful narrative of his own personal experiences beginning with the "phony" war underground in the Maginot Line through the Blitzkrieg in Belgium and Flanders . . . and the author's analysis of France's problems today and tomorrow.

These books may be ordered from The Magazine of Wall Street book department.



Season's Greetings

This is the time of the year when we reach out to each other in interest and friendship.

We, at the Magazine, feel very close to you all, because our work has much to do with your well being—with your peace of mind—and with your plans for the future. For that reason I say to you that 1941 is not a year to be afraid of—although it will be a crucial year. In it the road to a new age will open right under our eyes.

Today's battle for the rights of man will have been won. The pattern made in the death-struggle betwen the two great forces of good and ill clearly indicates this trend. We need have no fear of the final outcome.

Thus, the process of healing the suffering of many peoples will have begun . . . new hopes awakened. And when victory comes,—we can look forward to a period of reconstruction—of development—and of a better life.

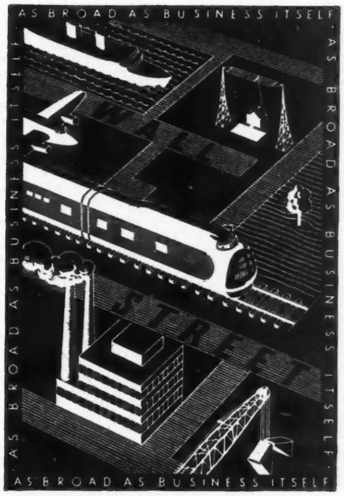
To you—our friends and subscribers—with all our heart we wish you well in your various undertakings and a full measure of happiness in the year ahead.

C. G. Wyckoff
Publisher.

Gendreau Photo

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



The Trend of Events

TIME IS THE ESSENCE . . . The present administrative set-up of our national defense program has largely ignored the lessons learned at great cost in our World War effort, as well as the more recent lessons taught by German, French and British experience. It is more than clear that effective coordination of so gigantic a task can only be had through centralized responsibility and authority.

The President's plan to set up a four-man procurement agency—to be composed of Knudsen, Hillman and the Secretaries of War and Navy—is a step in the right direction. It represents a compromise, however, between the present loose organization and the efficient War Industries Board which was established in 1918 under executive domination of Bernard M. Baruch. It remains to be seen whether a four-man team can be either as unanimous in its opinions or as decisive in its actions as Mr. Roosevelt anticipates.

But if aid to Britain is an integral and vital part of our defense program and if the British position is as critical as we are being told, then the question of what we can do within the next few months is far more urgent and important than longer range planing. Within the apparent time limits, it can be answered only in relatively small part by increased total armament production. If there is any adequate answer between now and spring, it centers in priority for types of planes and small escort vessels which can be built most quickly, and priority for British needs as against our own. Dare we let England have considerably more than 50 per cent of our aircraft output? Dare we not do so? This is going to be in the near future the most difficult and practical question confronting the makers of our foreign policy.

ONE MORE? . . . The drive to bring production of crude oil under Federal regulation now has the open and positive aid of President Roosevelt, who points to the world crisis and the national defense emergency as urgent reasons for prompt legislation.

State proration, of course, has functioned with less than complete success. This is partly because some States—notably Illinois—have failed to cooperate and because in others enforcement has been lax. Hence a plausible case can be made out for the desirability of a degree of Federal control which would be sufficient to eliminate wasteful and uneconomic exploitation of the oil fields of the nation.

Just for the record, however, let us note that limited Federal regulation of any industry has usually represented merely the start toward complete control. Also for the record, the list of regulated or semi-regulated

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industries and activities is already more numerous than we sometimes realize. It includes the railroads, utilities, interstate common carrier trucking, air transport, water carriers, radio communication, security financing, banks, the stock market, farming and bituminous coal.

Oil probably will join the list. And there have been just enough stirrings at Washington to keep the insurance companies guessing as to whether they are not also on the schedule. Well, we seem to be moving bit by bit toward a regulated, semi-capitalist economy. Maybe it is progress. Or maybe it is just manifest destiny. One conclusion to be drawn is this: The still free industries have greater reason than ever before to keep their houses in order and strive to fit the profit motive into the broader objective of creating and keeping public good will.

PRIORITIES FOR LABOR . . . As thousands of rookies stream into hastily constructed barracks and American military brains feverishly labor to mold the raw product into a precise fighting unit, an unseen army is striving to win the primary battle of any war—the adequate provision of efficient armament. Speed and higher speed is the keynote while our defense machine gears for huge production, but building the necessary army for manning this machine is more complex a task than drafting a few thousand more trainees for military service.

In spite of the great productivity of American machines and management ability, more skilled labor is essential for the armament emergency. A great long term swing to further military mechanization has increased labor's importance; in this respect, the National Industrial Conference Board's studies reveal the startling information that eighteen civilian workers in Germany provide equipment and supplies for each man in active military duty. This ratio compares with the two civilians needed for each soldier in the World War.

Over a period of time, it is likely that a gigantic force of skilled labor could be developed. But, with the demand for armaments so great, the nation can't wait, and, thus, it is fortunate that American industry is so mechanized that great numbers of skilled mechanics can be recruited from several lines, particularly the consumers' durable good trades. The difficulties which such a policy would entail are extensive, indeed, particularly as to disruption of the industries from which such men would be taken.

No such ratio of men in the field to men in industry as exists in Germany is necessary in this country because of our advanced productivity and our much smaller reliance on synthetic substitutes, but the current need for more help is urgent, especially in the severely bottlenecked machine tool industry. The far-reaching, vital decision of how to tip the scales—whether in favor of speeding armament or continued relatively smooth operation of the consumers' durable goods lines—can only be made by our Government, but at least we may congratulate ourselves on the very existence of this large potential source of able American mechanics.

CURBING THE BUREAUCRATS . . . With all the hue and cry over the Walter-Logan bill veto by President Roosevelt, there has nevertheless materialized, in the typical American way, considerable resulting good. President Roosevelt in his reasoned veto message takes cognizance of the attributes of the major reform premise. He outspokenly states the wish to make the administrative process more workable and more just and to avoid confusions, uncertainties and litigations. And he now is speeding the report and recommendations of the Attorney General's committee on this subject, with the consequence that before long Congress will have it for due consideration. The subsequent meeting of minds will thoroughly thresh the subject and effect a more detailed approach.

The aim of the Walter-Logan bill admittedly was to curb arbitrary and irresponsible action, if such materialize, among Federal bureaus and agencies. But it is probably for the best that President Roosevelt vetoed the measure as it stood. The hasty, blanket-legislation nature of the bill indicated an effort to apply an inflexible uniformity to the numerous Federal agencies and officials without regard to their particular duties.

Formulae prescribed under the bill would unquestionably have caused many unnecessary and provoking complexities. Authorization would be given the courts to substitute their judgment of the facts in any case for those of the specialized agency created by Congress. The entire construction of pin-point supervision in many vital and highly technical fields of business would be affected in one fell swoop, whereas sound approach would be first the analysis of the special structure and needs of each agency, and then the piecemeal application of potentially constructive ideas.

In any event, far from being dead, the administrative reform subject will one day again be in the headlines, this time revised in the light of the original mistakes of the Walter-Logan bill and through these mistakes a better piece of legislation may emerge.

BOOM IN BUILDING . . . Spotlighting current high activity which promises that 1941 will be a record-breaking year for heavy construction is the sharply increasing total of contracts being undertaken by private interests. Statistics for a late week in December, for example, show that privately-financed construction awards had a value of $39,329,000, or 350% more than in the corresponding period of 1939. Gains in the $91,806,000 of public construction awards were relatively smaller, totaling the equivalent of 136%.

The significance of the sustained rates of gain in private construction awards is, first and importantly, a tendency toward quieting of the old fears which brought on a defeatist attitude toward expansion. But, also vital in explaining the jump in private activity is the tidal wave of public and Federal building and the interdependent nature of various divisions of our complex industrial system. Thus, Government munitions plants cannot function alone; they must have fabricated steel, copper and other metals, they must have fundamental chemical products and supplementary materials.

All in the light of the defense program, then, small wonder it is that new high records will be reached in heavy construction this year, and that further records are visible on the 1941 horizon.

As I See It!

BY CHARLES BENEDICT

DICTATORS ARE MEN—NOT GODS

THERE has been evidence for a long time that the *mariage de convenance* between Hitler and Mussolini has been going on the rocks. That the fascist press and spokesmen were merely yessing Hitler to keep up the pretense. While the Nazis thought they were doing so thru fear and weakness, the Italians were planning revenge with desperate hate in their hearts. How could it be otherwise with the Nazis openly courting France and ignoring and flouting Italy?

Since last summer Hitler has been finding Il Duce and his demands quite a hindrance to his affair with France, which was becoming more and more important to his plans as time went on. Italy was being sidetracked, and Il Duce could plainly see that Hitler would not only fail to live up to his promises, but that, if the Nazis won, Italy was in danger of once more becoming the miserable vassal of a brutal and barbaric Germany—as in the Middle Ages under the terrorism of the Holy Roman Empire of Otto II.

With such a possibility staring them in the face, it is not to be wondered at if the Italians lost interest in fighting for a Nazi victory which meant their finish.

If we view the African war in the light of this situation, we can understand much that has transpired, and the amazing weakness of Italian arms.

As a result not only has the British victory knocked Hitler's plans into a cocked hat, but it seriously upset his relations with France as well. The upshot was the greatest diplomatic defeat for the Nazis to date—and a most humiliating defeat it was. I am referring to the affair which brought Laval's downfall—the Nazi coup which was to be used to counteract the British successes.

It must be clear that had the Nazis been able to launch a counter-offensive to stop the progress of the Greek-British victories—or take the offensive in the Near East—they would have done so in their own interest. A military victory at this time would have helped Nazi affairs in the Balkans and boosted the morale at home. Yet Hitler has pursued no other course than that of intensifying his attack on the British Isles and shipping, and overemphasizing gains on the diplomatic front.

The French episode was to have been the *piece de resistance* of the Nazi counter-offensive. For this purpose Herr Goebbels, stopping at nothing, arranged to bring the remains of L'Aiglon from Vienna to Paris to be interred in Napoleon's Tomb.

The ceremony was intended to be a highly dramatic affair. Timed for midnight—with the flare of torches lighting up the gloom—the stage was set for Hitler and Petain to swear allegiance—to announce to the world they had joined hands for the purpose of carrying on Napoleon's plans for destruction of the British Empire! What a farce!

In his anger, Laval, who had helped to engineer this project, apparently spilled the beans. Thus this super colossal piece of Nazi chicanery and insincerity fell through when Petain refused to take part. One can imagine the rage and chagrin of Herr Goebbels, Hitler et al—for it is rumored the Fuehrer had already arrived and was waiting at a Paris hotel.

It seems now that Laval—with ambitions to be a second Talleyrand—played for high stakes and lost.

Petain, recognizing there was no hope for France through German collaboration, and with Weygand in Africa as the ace in the hole—has decided to stand his ground. The war for a free France would be won in the colonies at any rate.

In the meantime, the British move on—certain of the essentials in supplies and men from Australia, New Zealand, South Africa, India and Egypt—sufficient to support her military campaign in the Near and Far East.

The British have just announced the arrival of heavy reinforcements and large quantities of materials and supplies at Singapore. (I referred to this possibility in my last article.) It seems the next step will be to nullify the Tokio end of the Axis.

The development of the colonial source of supplies will alleviate the situation in the British Isles where Britain can for the present only hope to continue her defense against German invasion. There is every likelihood she will be able to do this with the help of the United States—which I am certain will be forthcoming.

Hitler is on the run. The myth of his infallibility has been exploded!

Early 1941 Market Prospect

There is still time for the traditional year-end rally to come through but we doubt that January will see extension of any such seasonal upturn. Hence we counsel against longer-term purchases at present.

BY A. T. MILLER

THE market lost further ground last week and has now been in an irregular downtrend for more than six weeks or ever since the culmination of the very brief "inflation" rally immediately following the Presidential election.

At no time over this period have volume or day-to-day changes in the averages indicated either urgent or large-scale liquidation. But demand has been—and remains at this writing—both light and notably selective. It has therefore not been sufficient to stem a rather persistent, unspectacular erosion of values which is partially reflected in the averages and more fully reflected in drastic deflation of equities of a number of companies which have more to lose from higher operating costs than to gain from any increase in volume indirectly resulting from the armament activity.

Our weekly index of 309 issues has now cancelled approximately half of the maximum recovery from the lows of last June. The Dow-Jones industrial average, at the lowest recent close, had cancelled approximately 35 per cent of the June-November advance.

Against this the bond market is holding close to the year's high, both for the gilt-edged section and our index of corporate issues; each week sees a number of preferred stocks at new recovery highs; and buyers attracted to the minority of equities especially favored by armament earnings have not yet been able to pick them up at any significant concessions. A few examples to illustrate the latter point are Crucible Steel, New York Shipbuilding, Timken-Detroit and L. S. Starrett.

Barring an important shock in the foreign news, the seasonal odds remain strongly in favor of some degree of year-end rally, as we observed in this space a fortnight ago. At this writing it appears somewhat improbable that it will start from a level materially below the 128-129 range, Dow-Jones, which in our opinion implies that its possible scope will be rather limited. Yet it may be worth noting that the general caution and skepticism now prevailing are psychologically and technically in favor of, rather than against, maintaining the seasonal precedent.

The time element, however, focuses this analysis chiefly on the month of January rather than the year-end. And January, excepting in years when the bullish factors have been strongly dominant, has been a notoriously tricky month. It was a month of decline in 1940 and 1939 and approximately a stand-off in 1938. We can't help but regard it in this instance with a decided lack of confidence—not merely because of precedent but because we are unable to foresee for the near term any set of circumstances more favorable than now prevails.

Exploring this thought further, first take the market's relationship to the war. Britain's notable success in the Egyptian campaign and the Italian debacle in Greece failed to arouse any flicker of bullish enthusiasm. Earlier it had been demonstrated in the Autumn that England would not bow this year to the Nazi aerial attack, but instead of bringing conviction that the war would continue a long time and end with a German defeat it merely turned investment and speculative conjecture to Hitler's anticipated Spring drive.

In much greater degree than in the World War period, the market is simply not willing to take the outcome of this war or its aftermath on faith. It is skeptical that Britain can win anything like a total victory without ultimate direct participation by the United States. It knows that possible direct participation of the United States would involve a staggering cost and a staggering tax burden. It can not look with clarity even a short distance ahead and much less can it imagine what kind of world this will be for capitalist enterprise when peace comes—whether it comes with British victory or German victory or with utter exhaustion on both sides.

The tendency is to ignore or minimize favorable news and to look for the dark side. Thus more attention is paid to moves to speed up armament production and to increase our aid to Britain than to Axis set-backs. And the reorganization of our defense effort, together with official statements regarding the urgency of the situation, turn market thoughts not to increased industrial production but to Britain's chances of holding out through the Spring, to the cost of financing later British purchases if

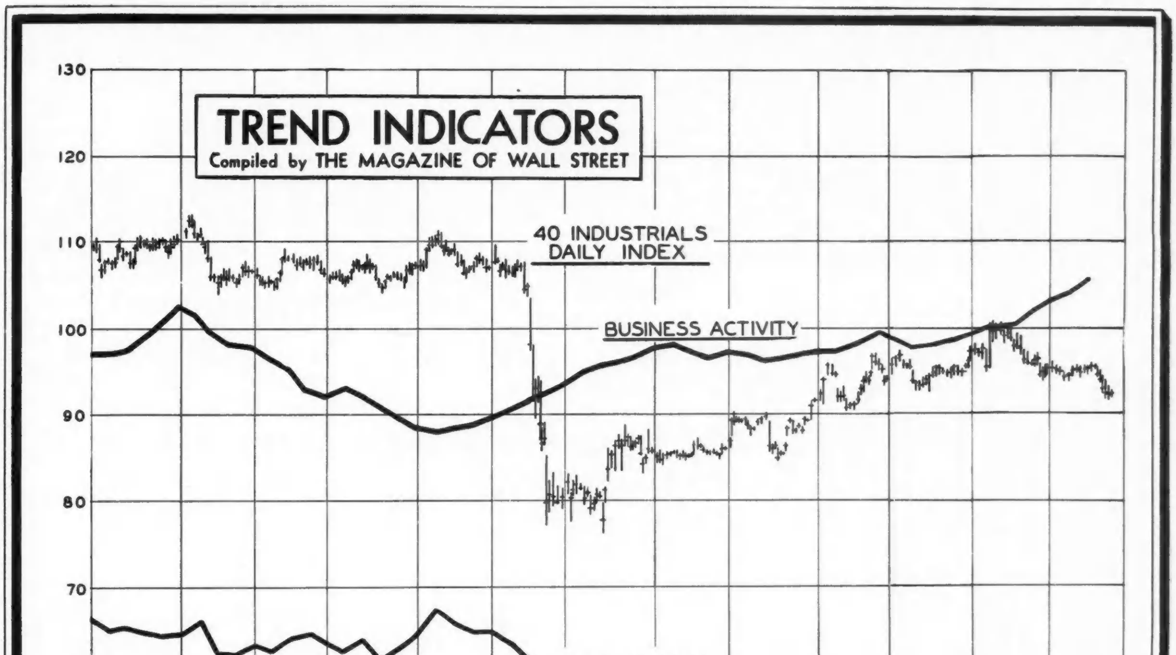
England holds out, to higher taxes and to increased regimentation of industry.

As for the business outlook, a boom volume is assured through the first quarter and absence of seasonal decline in January and February will push such indexes as that of the Federal Reserve Board to new all time high levels. But this prospect—not significantly different from what has been common knowledge for many weeks—does not provide fresh ammunition for the stock market.

In this setting Congress is only a minor factor of uncertainty, except as regards tax policy; and legislation on that score hardly will be completed before Summer, since it is the intention to defer action until the March 15 tax returns provide a better line on the productivity of present levies. Indeed, there are tentative indications here and there in the market that some of the stable-income equities are beginning to be regarded by investors as having discounted the worst tax probabilities. If the tax uncertainty were the only restraint, we could feel better about the market's early 1941 outlook.

It is quite possible that defeatism on England and over-pessimism on the Spring prospect will prove unwarranted, but it is much too early to begin looking for a possible market double-cross on that basis. Meanwhile, regardless of what comes to pass as regards the year-end rally, we are unable to take a bullish stand as regards either the intermediate or major trends.

—Monday, December 23.



Weighing Impact of 1941 Taxes on Corporate Earning Power

BY WARD GATES

PUBLIC problem Number One among investors, the tax snarl gives every indication of causing a full-fledged 1941 boom in the aspirin and headache powders industries. Gone are the days when the investment counselor could close his eyes and toss General Foods, Union Carbide, American Can, Sears, Roebuck, American Tobacco and other blue chips into the portfolio with a happy conscience. For, after all, it is the net income *after taxes* on which dividend policies are based, and it is this same all-important residue which is the backbone factor in making or breaking stock market prices.

To illustrate the situation specifically with the above blue-chip examples, General Foods common stock has an estimated excess profits tax credit of $2.25 a share on the average 1936-39 earnings base and a similar credit of $1.08 a share on an invested capital base. Thus, even though earnings have maintained their characteristic stability and on the basis of 1939 taxes probably would equal the 1939 net of $2.75 a share, the new taxes will melt this year's net to the equivalent of about $2.45 a share—less than last year. Union Carbide, with an earnings base credit of $3.60 a share and an invested capital base credit of $2.47, will suffer a reduction, through added 1940 taxes, of more than $1 a share. This year's earnings thus are likely to be cut down to about $4.50 a share.

Another old-line investment favorite, American Can, having an estimated earnings base credit of $5.29 a common share and an invested capital base credit of $4.12, will show a pleasing increase in net income over 1939 *before* the deduction of the larger normal tax and the excess profits tax this year. Income thus probably will run not far from $7.35 a share, which would compare impressively with the $6.22 a share reported for 1939. But, by the time *added* taxes have taken their toll, net income may equal little more than $6 a share. In the same bus, Sears, Roebuck's probable net income of over $8 a common share this year would look good against the $6.60 a share reported for 1939. But, with a $5.12 average earnings base and a 3.80 invested capital base, net income *after* the added taxes for 1940 may actually shrink to slightly less than that reported for 1939. Old, stable American Tobacco is having a good year, but woe to excess profits taxes, an earnings base of $4.44 and an invested capital base of $3.36, net income may be only around $4.85 a share, compared with $5.12 in 1939.

These examples show how vital it is for the investor to

reckon with taxes in framing his portfolio. They reflect, however, only the complexities of the present day, and it may be said in the words of the optimist-in-reverse, "Cheer up. The worst is yet to come!"

With the staggering burden of financing our gigantic defense program, Administration revenue experts are now engaged in working out a schedule which combines raising the debt limit with elevating tax revenues. There can be little question that the normal corporate income rate is going to be raised. One official view (Senator George) is that this rate may be lifted to 30%, from the present maximum rate of 24%. Less certain is just what will be done with excess profits taxation, although it is definitely known that the Treasury will seek to base this tax upon return from invested capital—doing away with the average earnings option.

Thus, the 1941 tax program may be handled in two sections, the first removing imperfections from the excess profits tax and the other providing additional revenue by raising the normal corporate income tax rate. All these potentials lead to numerous whys and wherefores. Suppose normal taxes are advanced to 30% from the current 24% rate? How will the earnings equity behind my stock holdings look *after* the tax? What if the United States should follow in England's footsteps on tax policy, i.e., adopt a maximum normal corporate income tax rate of 42½%? Suppose the excess profits tax base be revised to confine the option to invested capital return? What are going to be the preferential industries, the favored companies under 1941 tax revisions?

Unhappily, these are burning and difficult questions in investment circles today. Answering them leads into a morass of figures, conjecture and knotty computations. We have endeavored, however, in the study represented by this article to look concretely into the future, to convey to the reader a view of how his securities will be affected under the new fiscal scheme of things. The attached tabulation of 60 stocks demonstrates how earnings would shrink under a 30% normal corporate income tax rate and also how they would look after deduction of a 42½% normal maximum rate, such as now prevails in England.

As an X-norm, we have devised for the table an estimated net income base for 1940 after providing for all current taxes, including the normal corporate income tax rate of 24%, and have then computed the hypothetical earnings on a potential 30% and 42½% normal corporate income tax base. To run through a few examples, American Airlines' net income per share for 1940 after the present normal tax rate of 24% may approximate $7. Under a 30% normal tax rate, such net would be cut to $6.44, and under a 42½% normal tax rate, it would shrink to $5.29 a share. Borden's net per share may run around $1.70 after all taxes this year, but if this income were hit by a 30% normal tax, it would be around $1.56, while a 42½% normal tax rate would make it $1.29 a share, a figure less than the $1.40 dividend rate of this and recent years. Texas Corp. would descend down the scale from about $3.20 a share at 24% to $2.94 at 30% and to $2.42 at 42½%.

In addition to the likely forthcoming changes in the normal tax rate, the well-sponsored proposal that the excess profits tax credit be concentrated only on the invested capital base—to the exclusion of past earnings—

Est. Earnings Computed on 3 Tax Bases

Name of Company	*Com. Divs. Paid in 1940	Est. Net Per Com. Sh. 1940 @ 24% Normal Tax	Est. Net Per Com. Sh. @ 30% Normal Tax	Est. Net Per Com. Sh. @ 42½% Normal Tax
Amer. Airlines	$1.00	$7.00	$6.44	$5.29
Eastern Air Lines	....	3.00	2.76	2.26
United Air Lines	....	0.80	0.74	0.60
Elec. Storage Battery	2.00	2.90	2.67	2.19
Mack Trucks	1.50	3.00	2.76	2.26
Packard Motor	....	0.10	0.09	0.08
White Motor	....	2.50	2.30	1.89
Amer. Com. Al:	....	0.50	0.46	0.38
Purity Bakeries	1.10	1.50	1.38	1.13
Congoleum Nairn	1.25	1.40	1.29	1.06
Allis Chalmers	1.50	3.00	2.76	2.26
Oliver Farm Equip	0.50	2.00	1.84	1.51
United Drug	....	1.00	0.92	0.76
Anac. Wire & Cable	1.50	3.00	2.76	2.26
Scovill Mfg.	1.50	2.00	1.84	1.51
Alaska Juneau	0.60	***0.65	0.60	0.49
Anac. Copper Mining	2.00	***3.50	3.22	2.64
Calumet & Hecla	1.00	***1.00	0.92	0.76
Cerro de Pasco	4.00	***2.50	2.30	1.89
Consol. Coppermines	0.50	***0.50	0.46	0.38
Alpha Portland Cement	1.50	1.20	1.10	0.91
Lone Star Cement	3.50	3.20	2.94	2.42
International Salt	2.50	3.00	2.76	2.26
Tenn. Corp	0.25	1.50	1.38	1.13
Glen Alden Coal	1.25	1.70	1.56	1.29
McKeesport Tin Plate	....	0.80	0.74	0.60
Crocker Wheeler	....	0.40	0.37	0.30
Borden Co	1.40	1.70	1.56	1.29
Gt. Northern Paper	2.50	2.60	2.39	1.97
Gen. Amer. Transp.	3.00	4.50	4.14	3.40
Pullman	1.50	1.70	1.56	1.29
Great Nor. Pfd	0.50	4.30	3.96	3.25
N. Y. Central	....	2.00	1.84	1.51
Penn. R. R.	1.50	3.00	2.76	2.26
**Macy (R. H.)	2.00	2.20	2.02	1.66
Kress (S. H.) & Co	1.60	2.00	1.84	1.51
Reliable Stores	0.50	1.40	1.29	1.06
Insp. Cons. Copper	0.50	***1.60	1.47	1.21
Phelps Dodge	1.50	***2.30	2.12	1.74
Nat. Cash Register	1.00	1.20	1.10	0.91
Consol. Oil	0.72½	0.65	0.60	0.49
Gulf Oil	1.25	2.00	1.84	1.51
Phillips Petroleum	2.00	2.40	2.21	1.81
Skelly Oil	1.25	2.30	2.12	1.74
Socony-Vacuum	0.50	1.20	1.10	0.91
Stand. Oil of Ind	1.50	2.20	2.02	1.66
Texas Corp	2.00	3.20	2.94	2.42
Continental Oil	1.00	0.90	0.83	0.68
Mid-Continent Petrol.	0.80	1.70	1.56	1.29
Pacific Western Oil	....	0.50	0.46	0.38
Richfield Oil	0.50	0.70	0.64	0.53
South. Penn Oil	2.50	2.60	2.39	1.97
Shattuck (Frank G.)	0.40	0.10	0.09	0.08
Kroger Grocery & B	2.00	2.70	2.48	2.04
Interlake Iron	....	0.50	0.46	0.38
U. S. Pipe & Foundry	2.50	2.50	2.30	1.89
American Stores	0.75	1.30	1.20	0.98
**Assoc. Dry Goods	....	*1.20	1.10	0.91
Barker Bros	0.75	1.30	1.20	0.98
Butler Bros	0.30	0.80	0.74	0.60

* Divs. pd. or declared payable this year. ** For fiscal year to end 1/3/41.
*** Before depletion.

is of pressing consideration. Though we do not know what maximum rate of return may be permitted on invested capital in the coming year, we can project the strength or vulnerability of leading industries and companies from our computations of invested capital base credits for the current year.

Steel

Taking, first, the steel industry, the general impression is that because of the large investment necessary to set up shop, as well as the small average return on the investment, the steel group is immune to the ravages of the excess profits tax this year. Yet, we find an outstanding leader like Bethlehem Steel with an estimated average 1936-39 earnings base credit of $3.52 a common share and an invested capital base credit of $12.05 a common share. With possible earnings this year of around $14.50 a share before the additional 3.1% normal income tax and before the excess profits tax, net income may be reduced by the added taxes to around $13 a share. In other words, even on this year's invested capital option, the company may have to pay nearly $1 a share in excess profits taxes.

Using another example, Inland Steel, with its relatively low invested capital base credit of $5.76 a common share, would be likely to incur a heavy tax, especially since it appears that the company may have to pay almost $1 a share in excess profits taxes this year. National Steel, with an invested capital base of only $5.69 a common share, may drop the equivalent of about $0.75 a share in 1940 excess profits taxes. Republic Steel's 1940 invested capital base credit per common share runs only to $3.13—not a great deal more than the company is likely to show in earnings for 1940. There are, on the other hand a number of high credits, with leeway for considerable earnings expansion before being hit by excess profits taxes. Prominent among these are Jones & Laughlin, with an invested capital base credit of $17.44 a common share, Pittsburgh Steel with $4.09 a common share, U. S. Steel with $10.55 a common share and Wheeling Steel with $9.41 a common share.

Where do we go from here on taxes? With higher normal Federal income tax rates a certainty for next year and further complications possibly arising from potential confinement of excess profits taxes to the invested capital base, portfolios for 1941 must be revamped in line with anticipated changes. Utilities, railroads and oils are some of the favored industries from the standpoint of likely excess profits taxes next year, while among the other industries discussed in this survey, aircraft manufacturers and automobiles are in vulnerable position.

Railroads

Railroads are among the important industries which are almost entirely exempt from any excess profits taxation because of their large invested capital base, reflecting the expansion and financing of the past century. Some of the outstanding examples of stocks with huge leeway for earnings rise before being hit by excess profits taxes are Atchison, with a current $25 per common share credit; Great Northern preferred, with a $15.50 per share credit; New York Central, with an $11.60 credit; Pennsylvania Railroad, with a $7.75 credit, and Southern Railway common, with an $18 credit. Even the high earners—Chesapeake & Ohio, Norfolk & Western and Virginian are not likely this year to hit their full current exemptions on their common stocks, the credits running, respectively, $4.70, $23.85 and $5.30.

Rail Equipment

The railroad equipment industry likewise has a healthy capital base for warding off excess profits tax germs, though much less strongly situated in this respect than the railroads themselves. Thus, American Car & Foundry has a current invested capital base credit of $8.00 a common share, Baldwin Locomotive $3, General American Transportation $5.40 and Pullman $4.14. There are a number of exceptions, however, including Pressed Steel Car, with a common stock exemption only up to $0.62 a share; Westinghouse Air Brake common with $1.25 and Youngstown Steel Door with only $0.52.

Motor Industry

Hard hit from excess profits taxes is the automotive industry. Chrysler, with its current invested capital base credit of $3.15 a share, would be severely affected by confinement of excess profits taxes to this base; the company is likely to escape particularly heavy excess profits taxes this year only because it is falling back on the average earnings option, which gives it a credit of $9.20. In a similar situation is General Motors, with an invested capital base credit of $1.80 a common share and an average earnings credit of $3.75. Mack Trucks is an outstanding exception, with a current invested capital base credit of $5.00 a share.

Auto parts are in a similar boat, with restriction of excess profits taxes to the invested capital base likely to bring heavy deductions. For example, Borg-Warner has a per share current invested capital base exemption only up to $1.40, Briggs Manufacturing $1.33, Libbey-Owens-Ford $1.35, Spicer $2 and Thompson Products $2. Among the few exceptions to this vulnerability is Electric Storage Battery, with a credit running up to $3.04 a common share.

Oil

On the other hand, a related industry—oil—is in a strong spot with a high invested capital base. Thus, Atlantic Refining has a current invested capital base credit of $5 a common share, Continental $1.75, Mid-Continent $2.65, Phillips $3.30, Richfield $1.55, Skelly $3.85, Socony-Vacuum $2 and Texas $3.75. Even in the instances where leading oil companies are subject to the excess profits tax on an invested capital base (such as in the instances of Barnsdall, Humble and Standard Oil of N. J.) the margin by which their exemption is affected is relatively small.

Utilities

Another strategically situated group from the standpoint of potential confinement of excess profits taxes to the invested capital base is the utility industry. Since rate regulation prevents most utility companies from earning much (if at all) over the current 8% allowed on invested capital, the burden here is light. For details as to the tax status of individual companies, we suggest that the reader refer to the article on page 318 in this issue specifically regarding the utilities.

Air Lines

Taking the remaining important industries in alphabetical order, the air lines are in a strong position because of special exemptions. These exist when net for any year is not greater than the sum of air mail revenues and the usual exemption applicable to other corporations. The theory behind this exemption is that rate regulation restrains excess profits. On this basis, American Airlines has a current exemption up to about $11.50 a share, Eastern $3.60, Pan American $6.82 and United Air Lines $3.10.

Aircraft

Aircraft manufacturers are weakly situated from both the average earnings and invested capital standpoints, but the leading companies would be further hit if the excess profits tax should be confined to the invested capital option. Thus, the invested capital base credit of Douglas Aircraft is only $1.85 a share, compared with an average earnings credit of about $5.50 a share. North American Aviation's invested capital base credit goes all the way down to $0.23 a share, compared with $0.66 a share for the earnings base credit. Sperry has only a $0.55 per share invested capital base exemption, with the average earnings credit around $1.90 a share, while United Aircraft's invested capital base credit currently runs around $1 a share, compared with $1.84 for the average earnings base. For Curtiss-Wright, Lockheed and Glenn Martin, there is not a great deal to choose between the two bases, these being low in each instance.

Tires

Auto tires represent a strong group from the excess tax standpoint. Firestone, with a high invested capital base credit of $3.70 a common share, Goodrich, with $3.80 a common share, Goodyear, with $3.60, and Lee with $3, are some of the higher exemptions. U. S. Rubber, with a $2.50 per common share invested capital base credit, is likely to edge into the taxable group this year. The company's average earnings base credit is slightly over $1.75 a share. See page 321 of this issue.

Beverages

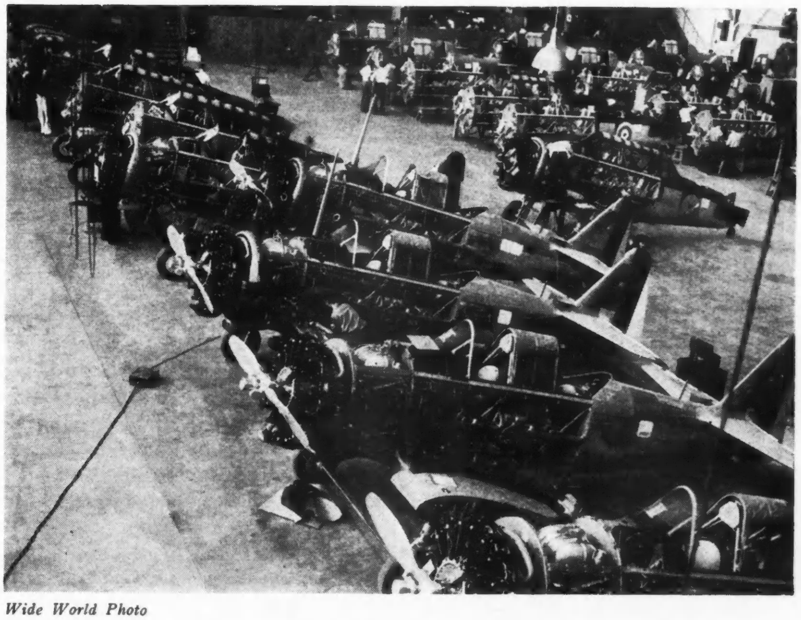
Beverages are a comparatively hard-hit group, more particularly the beer companies and certain individual companies, such as Coca-Cola, which has a common stock invested capital base credit at present of only $1.20 a share. Thus, but for its having the average earnings option to fall back on this year, (credit is equal to $5.50 a common share), the excess profits tax for 1940 would be particularly severe. National Distillers also would suffer from confinement of the excess profits tax to the invested capital base, since its credit there is only $2.05 a share, as against $3.50 for average earnings.

Building

Building is a mixed group, many companies having low and many high invested capital bases. Among the vulnerable companies from the excess profits standpoint are Holland Furnace, with the relatively low invested capital base of $1.75 a common share, Johns-Manville, with a $4.00 per share base and U. S. Gypsum, with a $3.60 per common share base. Cement companies as a group are more advantageously situated, with Lone Star being exempt up to $3.67 a share and Lehigh Portland Cement up to $3.50. American Radiator, Devoe & Raynolds and Yale & Towne are among those companies which can earn substantially more under the invested capital base option and be exempt.

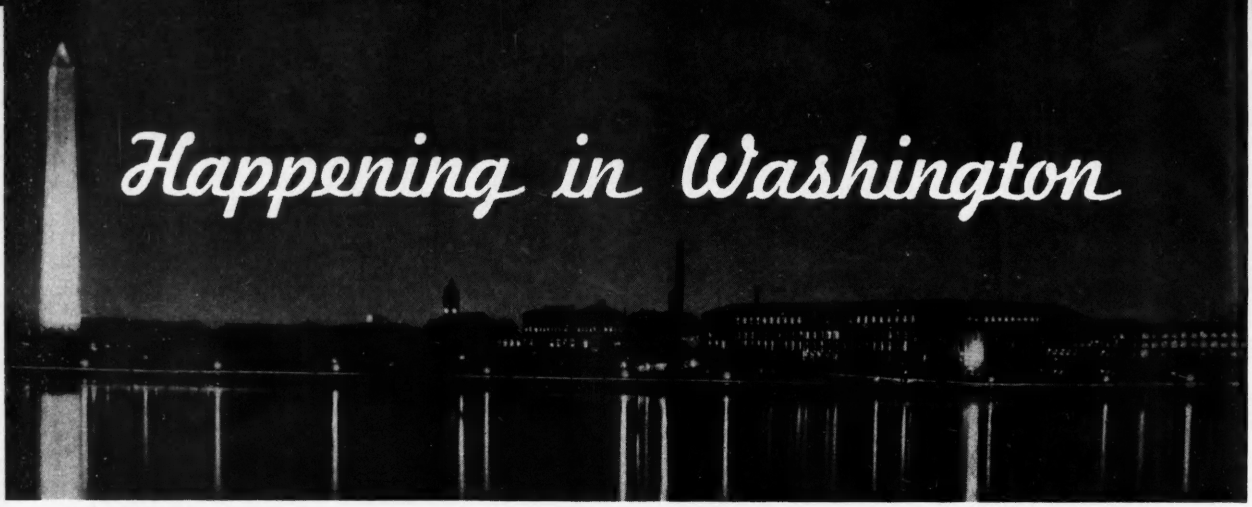
Chemicals

Chemicals are a hard hit group, as evidenced from the $8.10 per share invested capital base credit for Allied Chemical & Dye, $2.50 for Dow Chemical common, $2.80 for du Pont (exclusive of income from investments in General Motors), $2.23 for Hercules Powder common and $2.65 for Monsanto Chemi- (*Please turn to page* 350)



Wide World Photo

British training ships on the assembly line at North American Aviation Co.



Cushing Photo

Behind the Scenes With the New Congress

BY E. K. T.

NATIONAL defense and the threat of war will naturally dominate the newly-elected Seventy-seventh Congress which convenes January 3. Its tone will be set by President Roosevelt's annual message on the state of the Union, his budget message, and his Third Inaugural on the 20th.

Six weeks ago when President Roosevelt demonstrated his leadership by winning his third election with a handsome margin the general supposition was that he would be able to increase his control over Congress and that the spirit of independence which the legislative branch had been showing for the past several months would subside or disappear. On the eve of the new session, however, it appears that Congress will take a more prominent part in determining national policies than during the first two New Deal administrations. The brief sittings of the current "lame duck" session demonstrated independence in the refusal to adjourn and in defying a veto threat on the Walter-Logan bill to restrict the procedure of administrative agencies.

There will be some new faces but most of the membership carries over, the Democrats have a comfortable majority in both House and Senate, and the leadership of both parties is not materially changed, so the new Congress takes up where the old one left off. The balance of power remains roughly with the relatively conservative Democrats who in the past have frequently voted with the Republicans to upset the New Deal apple-cart; this never was a real coalition and can be broken down by an appeal to strict party loyalty, but administration leaders must continue to consider its potential strength and in this way it will be a moderating influence.

Whether because he foresees trouble with Congress, or to promote the spirit of national unity, or to give service to the form of democracy, President Roosevelt has lately been taking Congressional leaders into his confidence more than he used to, and Cabinet officers are talking things over with Congressional committees before they act. This presages better relations between the Executive and the Legislative, but Congress will retain a certain amount of suspicion and will insist on having the say on important policy matters even though the President could find some way to get around Congress.

The lag in the defense program will get first attention on Capitol Hill. A thoroughgoing investigation will be demanded, and the administration will have difficulty preventing it. There will be an insistent demand for creation of new coordinating machinery with a single head and with authority to make decisions and enforce them. Since the President has insisted that the present machinery is adequate he will oppose this and try to offset it by a reshuffling under which he retains the final say. Congress quite likely will compromise by creating a joint committee to keep a close and constant watch on details of the defense program.

Labor troubles in defense industries will be a continuous subject of debate in Congress. The administration stands firm for the 40-hour week, overtime beyond that, training new workers, absorbing the unemployed. Many in Congress want to lengthen the week, prohibit strikes, curb unions. Administration hopes to prevent a show-down by using conciliation, arguing unions into being "reasonable," inducing employers to go along, but if it is not successful Congress may, after several months of wrangling, do something about it. If Roosevelt can prevent action on labor in defense industries he can likewise prevent amendment of the Walsh-Healey, Wagner,

and Wage-Hour laws, and if these amendments don't come through a crisis in defense they won't come at all because the A. F. of L., which wants certain amendments in the Wagner act and would take others in a deal, is afraid to open up the question for fear Congress might go too far. On labor legislation, therefore, much talk but no action for the present.

Aid to Britain "short of war" will be the first thing dumped in the lap of Congress in January. President Roosevelt's newest plan to "loan or lease" war materials to England is a clever political scheme to accomplish what a big majority of Congress wants to do without having to repeal any existing isolationist legislation. Congress will vote the necessary authority and funds, though not without some squawks and some trimmings of its own. If this is not enough, the neutrality act may be amended later to permit extension of credit to British purchasers by private firms and the R F C, but probably not to permit a direct Treasury loan. Sending U.S. ships to England under either British or U.S. naval convoy will not be proposed officially.

Keeping Out of War

Keep out of war will be about the only restraint Congress will impose on Roosevelt's foreign policy, but it will tacitly admit we are practically waging an undeclared war by giving England everything she needs except men, and we will soon be on virtually a war footing. Huge new defense authorizations will be submitted to Congress and voted, ostensibly for ourselves but with England getting first call on most of the material. Biggest item will be ships. There will also be some supplemental administrative legislation, whether or not the defense commission is reorganized, giving more power to force orders on factories, enforce priorities for government contracts and sub-contracts, and possibly curtailing output of consumer goods to divert machines and materials to defense. Legislation to control prices is being drafted and will be submitted to Congress if events seem to warrant. Legislation to curb sabotage and espionage in industry will be discussed, but there will be much opposition because of a fear it is aimed at labor; Dies committee will be continued and will concentrate on this subject. While Congress will operate pretty much under a war psychology, it will try to keep the reins in its own hands rather than voting all authority to the President, but some pretty drastic legislation will get through if the defense program continues to lag and businessmen may again be the scapegoats.

The budget which President Roosevelt will submit the first week of the session will be staggering but even so it will be supplemented with additional requests later in the session. There will be some reductions in relief and administrative expenses of non-defense agencies and Congress will cut further, but the savings will not total large. Congress will scrutinize defense requests but will appropriate whatever is asked, and probably will approve a bookkeeping system separating emergency defense from regular government expenses.

To pay the bill, including aid to England, Congress will boost taxes—way up. And under pressure for revenue Congress may adopt some of the measures the Treasury wanted last year but didn't get, including harsher provisions on excess profits and capital gains taxes. Taxes will be under discussion all session; law won't be retroactive, probably won't be framed until after March 15 returns are studied, may not be passed until late spring. To raise about a billion dollars additional the normal corporation income tax will be put way up. Individual income taxes will be raised in the lower and middle brackets and exemptions will be tightened in all brackets. A general sales tax is unlikely, but the schedule of manufacturers' excise taxes may be expanded and the rates raised.

Debt limit will be raised, as requested by the administration, to 65 billion or higher, and present plan of financing defense with short-term notes amortized by special taxes will be abandoned. Congress has approved issuing defense notes without tax-exemption privilege, but there will be a fight over Treasury's plan to tax income from state and municipal bonds in return for letting them tax federal securities; state governments are organized to fight and there are Constitutional doubts, so the outcome in Congress is unpredictable. Congress will approve Treasury plans to borrow as much as possible from others than banks to avoid inflationary tendencies, and popular drives to sell small-denomination bonds to the public can be anticipated.

In addition to defense matters there will be the usual grist of minor bills and pet projects, plus several ideas left over from the last session. The Walter-Logan bill will be supplanted by a different form of legislation which the administration can swallow but which will place some restraint and uniformity on regulatory activities of executive bureaus and commissions.

Business Reforms

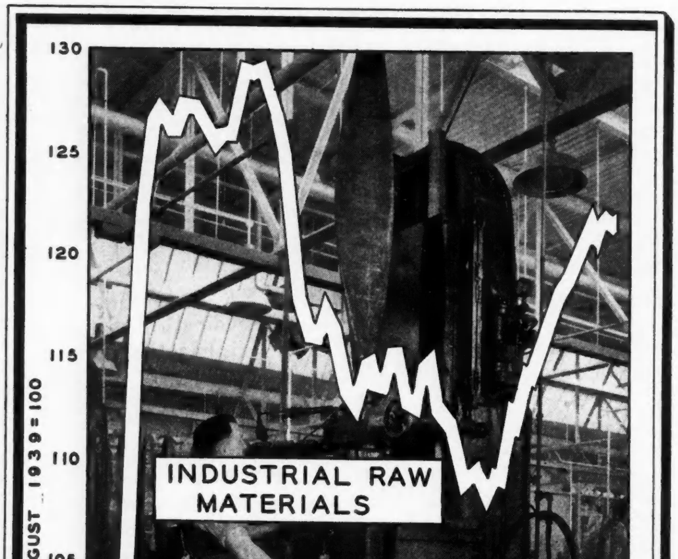
The T N E C will start making reports in a couple of months, and these will include many recommendations for reform of business; most of them may get lost in the defense shuffle, but Senator O'Mahoney will push for federal licensing of corporations and for civil penalties for anti-trust violation. One anticipated recommendation is an overhauling of the anti-trust laws to give Department of Justice administrative machinery to work out plans of industry behavior somewhere between an N R A code and a consent decree.

The Senate investigation of monetary and credit policies may finally take on life and develop some important legislation; Federal Reserve is pressing for more power over bank credit and inflationary factors, but the many federal agencies concerned with these matters are still feuding. Some New Dealers want legislation regulating insurance companies and railroad holding companies. Some Congressmen will plug for super-highways, low-cost housing, public power plants, and other projects as defense measures. Representative Patman has a new chain store bill ready to spring. Interior Department will make a new effort to get federal regulation of oil production in the name of defense, while bills to divorce oil companies from pipeline ownership will be up again with Department of Justice blessing.

Nor will the farmer's friends in Congress be silent. If the President's new plan does not provide for British purchases of foodstuffs here, there will be demands for some other way to subsidize

Measuring Inflation Controls

BY LAURENCE STERN



Triangle Photo

DUE to the unprecedented activity created directly and indirectly by our armament spending and by British war orders, many key industries are operating at or near capacity, bottlenecks on the supply side are increasingly numerous and demands for a rather broad variety of raw materials and finished goods can not be promptly served.

As was inevitable under such circumstances, a general tendency toward rising commodity prices and higher wages has developed; but because the pressures on the demand side vary greatly in intensity and because supply problems are more individual than general, the price movement is spotty.

Some people of prominence see the evidence—and the background monetary-credit factors—pointing to potentiality of dangerous inflation. I have lost count of the number of industrialists, bankers, economists, columnists and Government officials who have made speeches on the subject within the past fortnight and who have called for prompt application of various preventives and controls. The list includes the Chairman of the Federal Reserve Board. Before we join the debate, let us first take a bird's-eye look at the price situation itself.

The present advance began around the middle of August. Since then the broad wholesale price index of the Bureau of Labor Statistics has risen from 77 to 80, the latter figure being approximately the same as was attained in the initial speculative buying on outbreak of war in the autumn of 1939 and comparing with a high of 88 made on the inventory-wage inflation of 1937.

From mid-August to date the index of prices of finished goods has advanced from 81 to 83, the latter figure being a small fraction above the high of the autumn of last year but 6 points under the 1937 high. THE MAGAZINE OF WALL STREET's index of raw materials has advanced from 68 to 74 since the August upturn began, but is still 4 points under the 1939 autumn high and 20 points below the 1937 high. The Bureau of Labor index of fifteen *industrial* raw materials has advanced from 109 to 122, the latter figure comparing with 1939 autumn high of 128. This index was not compiled prior to August, 1939.

In some individual raw materials the percentage gains since mid-August have been extensive. For instance, shellac is up more than 20 per cent; hides, 35 per cent; burlap, 11 per cent; wool, 25 per cent; steel scrap, 13 per cent; copper, 9 per cent; lead, 15 per cent; zinc, 10 per cent.

But as regards the more important domestic commodities the general picture is one of notable restraint on the part of sellers; and of buying for measurable needs, rather than for speculation, on the part of buyers. For example, although buying and consumption of copper and lead have substantially exceeded any rate reached in 1937, their prices today are respectively 30 per cent and 27 per cent below the 1937 peaks.

Because the inflationary effects of the armament-war orders boom to date are mild, because there is still a large unemployment slack to be taken up and because it is desirable to obtain a substantially increased national income, the Administration appears adverse to general application of deflationary monetary-credit policies. It

is inclined thus far to deal with individually ticklish price situations on an individual basis. For instance, a change in Army specifications on, and delivery dates for, woolen goods, together with moves to import Australian wool in large quantities under bond, ended the squeeze in domestic wool. Again, hints that Chilean copper can readily be brought in by the Government at less than the domestic price have sufficed to prevent the metal rising above 12 cents a pound.

It is quite possible, in fact probable, that at a later stage more severe and more general controls will need to be applied. But, in the writer's opinion, the Administration is correct in its indicated judgment that the existing realities do not call for general or drastic action.

To begin with, this is not a private credit boom like that of the '20's. It is a government credit boom—financed respectively by the United States and British goverments. There is no tendency toward excess in private use of credit. True, bank loans are expanding—but why? Mainly to finance increased inventories. Why are increased inventories needed? To meet the demands created directly and indirectly by the armament spending.

The point I make is simply this: As long as Government deficit spending is the only dynamic factor of credit inflation, the application of deflationary credit devices to prevent an imaginary *private* boom would amount to the Government shadow-boxing with itself. The Reserve Board and the Treasury did just that in the 1936-1937 control moves and scored—to their surprise—a clean knockout.

Some eminent observers are deeply alarmed because excess reserves of member banks have recently been around the unprecedented figure of $7,000,000,000 and because on this swollen base it would be theoretically possible to expand bank credit in astronomical proportions. Well, a man can get drunk on one bottle of whiskey or he can stay sober even though there may be a dozen cases of the stuff in his cellar.

There is nothing remotely resembling a mathematical relationship between the volume of excess bank reserves and the demand for private credit. The speculative spree of 1926-1929 was financed on a volume of excess reserves that was literally small change in comparison with any volume of excess reserves which has existed during the past five years. There is no mathematical relationship between the total supply of money—consisting of bank funds and currency in circulation—and the level or trend of commodity prices.

The Key Reality

If a bankrupt government turns to printing press inflation—as Germany did after the first World War—there is, of course, a panic flight from money, and commodity prices go through the roof as people hastily convert a rapidly depreciating currency into things of tangible value. But such a condition is fantastically remote from any need of consideration in this article; and, in relation to the kind of inflation threat that we are concerned with, the role played by the monetary-credit factors is permissive or accessory rather than causative.

We might or might not have a substantial degree of commodity price inflation whether member bank excess reserves were $7,000,000,000 or $3,000,000,000; we might or might not have it whether gold imports were sterilized or were not sterilized; we might or might not have it whether interest rates on long term bonds were permitted to rise somewhat or whether rates stay pegged where they are.

The key reality of our inflation problem is very simple: sharply increased total demand for goods on the one hand, inadequate supply of goods on the other hand. And in this situation the Government's demand for goods is the dynamic and controlling factor.

Assuming the armament program will be carried out as now conceived, demand for goods for an indefinite time to come will press hard against a ceiling of supplies. The ceiling will be gradually raised, chiefly by building new producing capacity; and if this can be done fast enough and extensively enough we may succeed fairly well on the whole in having our cake and eating it too—that is, in obtaining the needed armaments without having to curtail supplies of civilian goods to any important degree.

Government Controls

But it is hardly to be believed that we can go through an armament boom without any conflict between Government demands and civilian demands. And when and where that conflict develops Government demand must and will, of course, have preference. Moreover, it is obvious that the normal functioning of our competitive price economy is out the window for the duration. Mandatory priorities will be increasingly applied and, in one form or another, the Government will exercise an increasing control over prices.

Taken in conjunction with determined efforts to increase the available supplies of goods, selective priorities and price regulation—whether informal and piecemeal, as at present, or on a much more ambitious scale—constitute potent weapons with which the inflationary effects of the armament spending can be kept in hand.

And if we reach a point where the demand originating from armament orders and British war orders can not be adequately met except by forced curtailment of nonessential civilian demands, such curtailment can be readily and promptly effected. That's where Federal tax policy comes in as one of the most powerful of our available inflation controls.

Consumer buying power is at a relatively high and rising level. If the supply of civilian goods is inadequate, in relation to the increased buying power, there is a strong tendency toward higher prices. Although politically difficult to apply, the sure-fire method of preventing or minimizing inflationary results is for the Government to recapture, and use for financing the armament program, the increased public income or a major part of it. That is what Great Britain has done. That was a cardinal principle of the French war financing program under the Reynaud regime.

If your income increases by 20 per cent, you have a 20 per cent greater buying power with which to satisfy optional demands. But, obviously, if the Government increases your income tax by 20 per cent, the increased buying power is neutralized and diverted to Government uses.

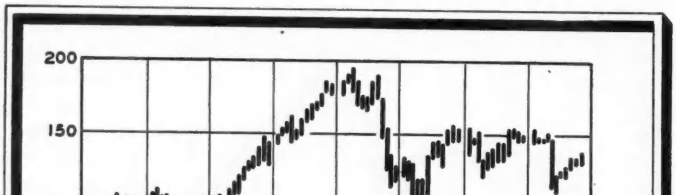
We are primarily concerned in this article with what *can* be done to prevent a serious price inflation. It need hardly be said that what *should* be done at the present time is a wholly different matter. In the writer's opinion, nothing should be done now or any time soon to check a further substantial rise in national income and consumer purchasing power.

In the first place, the risk of a broad and general price inflation at any time in the next six months seems relatively slight. The shortages exist mainly in defense goods and machine equipment, and hence have no close relationship to the civilian living standard. No one any time soon will have to bid up to obtain automobiles, household furnishings and equipment, clothing or the host of sundry goods and services that figure in the average consumer's budget. There can be no real shortage of food, no general shortage of housing.

In the second place, the armament program is still much more largely in the "tooling up" stage than in the stage of mass production. The volume of business activity dependent upon consumer buying power is far greater than the volume which is directly and solely dependent on armament activity. Therefore, a tax policy which effected any substanial reduction in the marginal income which consumers have to spend for non-essential goods and services would be highly deflationary in effect and decidedly premature in timing. For instance, only a relatively small proportion of the total labor force of the General Motors Corporation is engaged today in the production of armaments or in work preparatory to the production of armaments. If a high excise tax were imposed on automobiles, for the deliberate purpose of curtailing consumer expenditures as has been done in England and Canada, large numbers of employees would immediately be thrown out of work. The nation still has a major unemployment problem on its hands. To aggravate that problem would not make sense.

In the third place, it is more essential at present to gear tax policy to the Government's fiscal problem than to the matter of possible price inflation. Applied to the present national income, taxes sufficiently drastic and broad-based to pay for any major part of the armament expenditudes would tend to be self-defeating. On the other hand, the higher the national income, the more productive will the present tax structure be; and the greater the means of the taxpayers to absorb higher levies when maximum utilization of our means of production makes imposition of deflationary curbs desirable.

Few people realize how greatly Federal taxes have already been increased or how productive the existing taxes would be in a setting of sustained boom activity in business. Assuming a national income of $80,000,000,000 in 1941—and this appears a conservative projection—it is estimated that without any increase in rates Federal revenues would approximate $10,000,000,000. If we assume that present regular expenditures of about $9,000,000,000 a year can be cut to $8,000,000,000 through reduced relief outgo and other economies, the normal budget could be balanced with a substantial excess for armaments. On a national income of $90,000,000,000 it is estimated that present taxes would produce somewhere close to $12,500,000,000 in revenues or enough to balance the budget and pay a major share of the annual cost of the defense program. In any event, it is entirely obvious that if and when the threat of undesirable price inflation becomes something more real than at present tax policy can be used as an effective means of control.



There is, however, another control device available which would be both effective and more politically feasible than a broad increase in taxes. A considerable portion of the new public buying power could be diverted to Government purposes by sales of Government bonds to individual investors. To induce such investment on a large scale—to that extent reducing the total income available for purchase of non-essential goods—would require a more attractive interest rate than is now being paid on Federal obligations, together with a patriotic campaign similar to the Liberty Loan drives of World War days.

Figuratively speaking, the choice between guns or butter for the people of the United States is far easier than in any other country of the world. This is because our high living standard includes an exceptionally large proportion of what people elsewhere in the world would call luxuries but which we regard simply as optional things which, in a pinch, we could do without for considerable periods of time without suffering real hardship.

It is not possible to imagine a condition under which we would have to cut down on the essentials of a civilized (*Please turn to page* 352)

Gendreau Photo

Houses of Parliament in London.

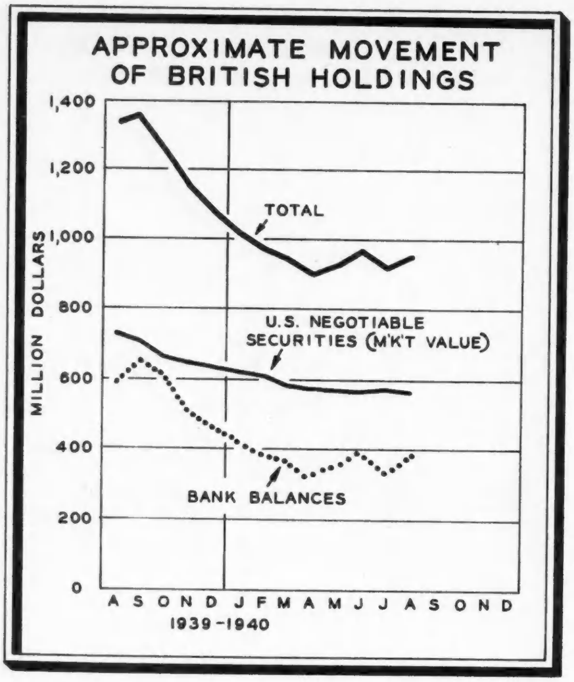
How Can Britain Pay Us for Financial Aid?

BY V. L. HOROTH

THE question of our financial help to Great Britain was officially opened by a frank statement by the late Ambassador Lord Lothian, upon his return from London about a month ago. Yet everyone knew that the problem would arise sooner or later. What probably surprised this country was that the question was raised after only about six months of "active" warfare. While the stepping up of British purchases here was reported to have been rapidly reducing gold assets, more than half of Britain's bank balances and the holdings of American negotiable securities in this country were known to be intact. This probably divided, to some extent, American public opinion as to when and how the financial aid should be rendered.

Just now, our financial help to Great Britain should be regarded as emergency, because we may be approaching the decisive period of the war. There is reason to believe that Herr Hitler will stake everything in a grand assault on the British Isles in the spring and that he will make a desperate attempt to force his way into the Atlantic, before aid from the United States can come on a large scale. Moreover, the increase in the destruction of factories and shipping prior to and during such an attack would necessitate much larger deliveries to the British than can be anticipated at present. By opening the question of credits, Great Britain wants simply to be assured of uninterrupted help while she is making a stand.

To what extent the British liquidated their gold and dollar assets during the first fifteen months of the war is difficult to determine accurately. We know from the United States Treasury figures that the British have reduced their American security holdings by about \$160,000,000, and their bank balances here by about \$200,000,000. As to the disposal of gold, we have only guesses, ranging from \$1,000,000,000 to \$2,000,000,000 and upward. Altogether, London may have reduced her gold and dollar assets by about \$1,500,000,000 to \$2,500,000,000, possibly somewhat more, since she had to use U. S. dollars to pay for at least a part of her purchases from Canada and various Latin American countries (chiefly for Venezuelan oil). That would mean that the pre-war British gold and dollar reserves were cut by as much as half.



The drain on the British dollar and gold resources during the first seven "inactive" months of war was relatively small, as the buying of the British Purchasing Commission was conservative. After the invasion of France, however, the Commission's commitments rose rapidly and were estimated recently at more than $3,000,000,000. Since, in some cases, advances on contracts exceed 50 per cent, it has been estimated that the Commission will have spent in this country at least $4,000,000,000 in cash during the first two years of the war.

During the first war year (September, 1939 to August, 1940), the excess of our sales to Great Britain of about $620,000,000 would probably have been squared by the sales of newly mined gold ($500,000,000) and dollars earned by various Empire countries ($150,000,000), were it not for the advances made by the Purchasing Commission to our industries. From what is known about the size of armament deliveries, the figures will be considerably different during the second war year. Should we, for example, sell the British about half of our output of 15,000 planes, about half of our steel output, earmarked for our defense program, and about 2,000,000 gross tons of shipping, the cost would be: 7,500 planes, $650,000,000; 10,000,000 tons of steel products, $7,000,000,000; 200—10,000 tons ships, $200,000,000; or a total of $1,550,000,000.

At that rate, total sales to Great Britain during the second war year may well reach the $2,000,000,000 level, which would mean that even after the sale of new gold and Empire goods and commodities, Great Britain would need at least an additional $100,000,000,000 per month to fully pay for her purchases in this country.

That the British have asked for our financial help before they have disposed of their holdings of American investments should occasion no surprise. The British have been dependent upon income from foreign securities—which yielded close to $1,000,000,000 in 1937—to pay for the excess of imports over exports. If the income from overseas investments should cease, Great Britain would cease to be a creditor country and, as a result, vast and serious changes, not only in her own economy, but in our own and in the economies of many debtor countries—such as Argentina and Australia—would have to take place. The standard of living of the English people would be lowered drastically and emigration on a vast scale would be necessary to bring about a new equilibrium.

In such a case, British trade with us and other countries would probably have to be put on a barter basis. We would lose our best customer—a market normally for at least $500,000,000 worth of our products. Much the same would happen to Argentina and Brazil. They would either have to look for new markets, or readjust their production and trade. The disappearance of Great Britain as a creditor nation would thus doubtless contribute to a long depression after the war, and the transfer problem—the ability of new debtors to obtain dollar exchange or gold—might be made even worse than it has been in the last ten years. We might be unable to collect interest on our newly acquired investments in Canada, Argentina, Australia, etc.

If it should be necessary to dispose of British foreign investments, the British themselves would probably prefer to do so in the countries where the investments were made. At least such a procedure would lessen the transfer problem throughout the world, and might give the British a chance to expand exports to those countries after the war, to replace reduced income from foreign investments.

1. What may be described as the No. 1 method of fi-

Value of British Empire Gold Production

(In Millions of Dollars)

Year	South Africa	Canada	Australia	India	Rhodesia	West Africa	Malay States	East Africa	Oceania	Total
(in old dollars, at $20.67 per fine ounce										
1910..	155	10	65	6	....	....	....	....	..	246
1915..	186	19	48	6	....	....	....	....	..	270
1922..	144	27	18	7	....	....	....	....	..	205
1929	215	40	9	8	12	4	1	1	4	294
1930..	221	43	10	7	11	5	1	1	4	303
1931..	225	54	12	7	11	5	1	1	4	320
1932..	238	63	15	7	12	6	1	1	5	348
1933..	227	61	17	7	13	7	1	1	6	340
(in new dollars, at $35.00 per fine ounce)										
1934..	367	104	30	11	24	12	2	2	13	565
1935..	377	115	31	11	25	14	2	2	14	591
1936..	396	131	40	12	28	16	2	2	16	643
1937..	410	143	47	12	28	21	2	3	17	683
1938..	425	165	54	11	29	25	2	3	21	735
1939..	448	178	56	11	28	29	2	3	22	777
1940e.	492	203	59	12	30	33	3	3	23	858

e—Preliminary estimate.

nancing British credits, the disposal of British holdings of American, Canadian, Latin American and other overseas investments (having a nominal value of about £3,800,000,000, but consisting in large proportion of direct investments)—would bring about the end of Great Britain as a creditor nation. It would be definitely undesirable for the reasons described above, and would necessitate changes in both the Neutrality and the Johnson Acts.

2. Less disturbing to post-war economic relations would be joint bank credit or Reconstruction Finance Corporation credit or a public bond issue secured by British holdings of overseas securities. In such case, the debtor nations would still continue to pay debt service to Great Britain and her status as a creditor nation would therefore be undisturbed except in regard to us. However, ordinary bank credit or a bond issue would probably not be forthcoming in sufficiently large amounts and a government guarantee or participation would be necessary.

F. P. G. Photo

Pall Mall and Trafalgar Square no longer look like this, but much more of London is still intact than is in ruins.

3. Another solution, proposed by Mr. George P. Auld, former Accountant General of the Inter-Allied Reparation Commision, calls for delivery of sterling exchange to American manufacturers. These balances would be surrendered against the payment of the equivalent in dollars through the Treasury to the Reconstruction Finance Corporation, which would then reinvest them in the securities of British industries. In other words, Britain would again become a debtor vis-a-vis this country, but would continue in the creditor status in respect to the Empire and Latin America. While such a procedure would require no change in either the Johnson or the Neutrality Act, it would necessitate a great liberalization of our tariff policies after the war, and possibly lead to triangular agreements in order to let British industries earn sufficient dollars for the payment of debt service.

4. Joint bank credit, or a Reconstruction Finance Corporation loan or a public bond issue without collateral. Objection same as under No. 2: Government participation necessary. Default, however, perhaps less likely than on the First World War debts.

5. Direct credit of the American Government, as during the First World War. This procedure would necessitate repeal of the Neutrality and the Johnson Acts. It would court a default.

6. The sale to us of British West Indian Islands, the Bahamas, the Bermudas, Jamaica, British Honduras and British Guiana is perhaps the most popular suggestion (especially among Congressmen) as to a way to raise funds for Great Britain. The islands have about the combined area of the States of Maryland and Delaware, but are fairly thickly populated (2,500,000, chiefly negroes). British Guiana and British Honduras are inhabited only on the coast. They have a population of about 400,000, although together they are about as large in area as the State of Colorado. The value of these islands to us is chiefly military, and the fact that we are to have naval bases on the most important of them has taken care of that angle. Even though the British might have treated the islands, in post-war years, as "step-children"—which they now acknowledge—the population is none too eager to be transferred to our flag. They fear, and justly so, that they would lose the principal markets for their most important product—sugar. The sugar crop produced by the Islands and British Guiana exceeds well over 600,000 tons, and is sold in Canada and Great Britain. Trinidad has oil wells and refineries and British Guiana is important also for its large deposits of bauxite.

7. Outright grant in the form of cash contribution. Mr. J. P. Warburg, for example, proposed a two billion a year gift which would be regarded as "insurance." More honest than I.O.U. but as yet politically inexpedient.

8. A loan secured by future Empire gold output. Favored as a means of slowing down the rise of excess reserve balances and hence aiding to control possible inflationary tendencies. Also advocated as helping to preserve the gold standard abroad. Would not require any change in the Johnson Act.

9. Building of industrial plants and shipyards (possibly with the aid of Reconstruction Finance Corporation) and leasing them to Great Britain for a nominal consideration. Favored because it would create plant capacity essential to our defense at the same time.

10. Lending Great Britain war machines, munitions and supplies rather than money under a "gentlemen's agreement" for repayment to (*Please turn to page* 351)

Many "conservative" investment rules are not tenable today but abnormal conditions present abnormal opportunities as well as abnormal risks.

Investing for Safe Income in 1941

BY J. S. WILLIAMS

OVER the past fifteen months the successful investor for price appreciation has been an opportunist, looking with skepticism upon the obvious, and generously favored by good luck and fortuitous circumstances. That opportunities for profitable investment were plentiful is borne out by the sizable list of stocks which today are selling at or near their 1940 highs, while the market as a whole is still some 15 per cent under the high and many common stocks, including a considerable number of "blue chip" issues, are practically at their lows.

The successful investor for appreciation has discarded many of the conventional methods associated with normal conditions and has applied a new technique born of the war and national emergency. Risks are greater and the premium on boldness and judgment has greatly increased. Such is likely to be the lot of this type of investor "for the duration."

But what of the investor whose funds must earn their keep in income? Has the war compelled him to alter greatly an investment program conceived under peacetime conditions? The answer is an emphatic yes. While it is true that dividend casualties over the past year have been very few, and the investor computing his total income this year would gain scant forewarning of what may lie ahead, the changes which have been taking place in the technique of investing for income have been none the less significant, even if they have been less apparent. The time does not appear far distant, however, when the income investor may be face to face with the concrete evidence of these changes in the form of impaired income. The impact of these changes can be mitigated and safeguarded against by anticipating them and preparing for them in advance.

Probably the most important single requisite for successful investing under present-day conditions is a realistic attitude on the part of the individual investor. Such an attitude should express itself in a number of different ways. First of all, it should be realized that even if the United States succeeds in avoiding actual participation in the war, the repercussions on our national economy, regardless of the outcome, cannot be avoided. The exact nature and extent of these repercussions cannot be foretold. For this reason all firm convictions and policies should be avoided in favor of a flexible compromise between the existing realities and the uncertainties of the future. The investor must be prepared substantially to discard any program, logical and sound though it may have been yesterday, if the events of today and tomorrow are of nature calculated seriously to threaten it.

Then, too, psychology plays an important role in successful investing today. Granted that world conditions are not conducive to optimism, but neither is there reason to suppose that nothing but complete chaos lies ahead. If the latter were even possible, the investor might well resign himself to spending his capital as fast as he could because there would be scant chance that he would be able to save anything from the ensuing wreckage. Rarely does it happen that any more than a very few of the things which worry us today actually materialize. Any investment program impelled by fear could easily defeat its own purpose.

In any period such as the present when major uncertainties appear to be the rule rather than the exception, the investor is likely to be beset with a lot of loose talk and loose thinking expressed in the most positive, and

Common Stocks for Income and Appreciation

Issue	Earned Per Share 1939	Earned Per Share 1940*	1940 Price Range High	1940 Price Range Low	Recent Price	Dividend	Yield
Bendix Aviation	2.14	3.09	36⅜	24½	33	2.50	7.6
General Amer. Trans.	3.11	3.24	57¼	35¾	54	3.00	5.5
Texas Gulf Sulphur	2.04	1.89	37¼	26⅞	37	2.50	6.7
Timken-Detroit Axle	2.62	3.69(a)	30	18	29	3.25	11.2
Allegheny-Lud. Steel	1.49	2.40	26½	15½	23	1.50	6.5
Bower Roller Bearing	3.23	2.76	38¾	26	36	3.00	8.3
General Motors	4.06	2.83	56⅜	37¼	50	3.75	7.5
L. S. Starrett	2.13(a)	4.93(a)	38¼	23	37	3.25	8.8
Spicer Mfg.	4.49(b)	6.36(b)	38¾	19	35	2.50	7.1
Newmont Mining	2.11	1.00(d)	29¾	20½	29	2.00	6.9
Todd Shipyards	1.22(c)	4.05(c)	88½	55	87	8.00	9.2
St. Joseph Lead	2.70	1.32(d)	42	26	38	2.25	5.9
Caterpillar Tractor	2.89	2.91	56½	42½	50	2.00	4.0
Lone Star Cement	3.49	2.37	46½	29	38	3.50	9.2
U. S. Steel	1.84	5.79	76½	42	68	3.00	4.4

*—1st 9 mos. (a)—Year ended June 30. (b)—Year ended Aug. 31. (c)—Year ended Mar. 31. (d)—6 mos. to June 30.

oftentimes, convincing manner. If as a consequence the investor does not fall into the mistake of arriving at hasty conclusions, he at least will be more confused and bewildered than ever.

Such loose talk can usually be recognized by the extent to which it is promptly accepted by a majority of people. One of the most frequent examples is the recurring talk of inflation, and the need for hedging investments against inflation. Although the threat was being bandied around as long ago as 1933, the only inflation which has occurred has been in excess bank reserves and bond prices. Yet it was bonds, so some said, which were due to suffer the greatest losses through "inflation," while common stocks offered the best "hedge against inflation." Many investors who succumbed to this line of reasoning probably have more losses than profits to show for their efforts. For a brief period after the recent election the talk of inflation was again rampant, but there is no more evidence that it is imminent now than there was seven years ago. Nor can it be accepted as inevitable that inflation will either accompany the war or will be a major aftermath. The arguments in support of this contention have been previously presented in these pages and for the purpose of this discussion it suffices to say that inflation is at this time only a minor factor at best in an investment program designed to provide an adequate and dependable income.

Invariably once an idea has been accepted and taken root with the majority, then is the time to scrutinize its merits very carefully. The stock market is replete with many occasions when the majority were woefully wrong.

The most serious and imminent threat to investors' income is the matter of substantially increased corporate income and excess profits taxes, discussed in detail beginning on page 304 of this issue. Moreover, it is apparently a foregone conclusion that the corporate tax burden will be heavier before it is lighter.

The tax increases embodied in the Second Revenue Act of 1940 will be levied against 1940 earnings, with the exception of those companies whose fiscal year began in 1939. The effect of these taxes, already evident in nine months' earnings statements, will be given greater emphasis as annual reports come to hand, and it is certain that many stockholders will be surprised and dismayed at the extent to which these increased levies have eaten into the margin of safety for dividends. In perhaps not a few cases it will be found that it has been necessary to dip into surplus for dividends.

Selected Preferred Stocks for Income

	1940 Price Range High	Low	Call Price	Recent Price	Yield
Pure Oil 5%	89	73⅜	105	85	5.9
Crucible Steel 5%	99	75¼	110	94	5.3
Armour & Co. (Del.) 7%	111⅛	97½	110	109	6.4
Bucyrus-Erie 7%	119	97	120	116	6.0
Midland Steel 1st 8%	124½	103	N. C.	120	6.6
Radio Corp. 3½%	69	48½	100	63	5.5
Goodyear T. & Rub. 5%	97¼	69	110	85	5.9
Crown Zellerbach 5%	95¼	75	102½	92	5.4

N. C.—Not callable.

Medium Grade Bonds for Income and Price Appreciation

	1940 Price Range High	Low	Recent Price	Current Yield
General Steel Castings 5½'s 1949	90	55¾	88	6.25
Pressed Steel Car 5's 1951	97¼	79	95	5.26
International Paper 6's 1955 (a)	90⅛	105⅛	105	5.71
New York Central Ref. 5's 2013	66½	43	65	7.69
Stubebaker Corp. Cv. 6's 1945 (b)	113½	81	105	5.71
Great Northern Rwy. 5's 1973 (c)	103⅝	87	101	4.95
Southern Rwy. Dev. & Gen. 6's 1956	79½	53	76	7.89
Cleveland Union Term. 5½'s 1972	90½	72	83	6.63
Kansas City Southern 5's 1950	70½	50	70	7.14
Pere Marquette 4½'s 1980	72½	45	71	6.34

(a)—Callable at 105. (b)—Callable at 100. (c)—Not callable.

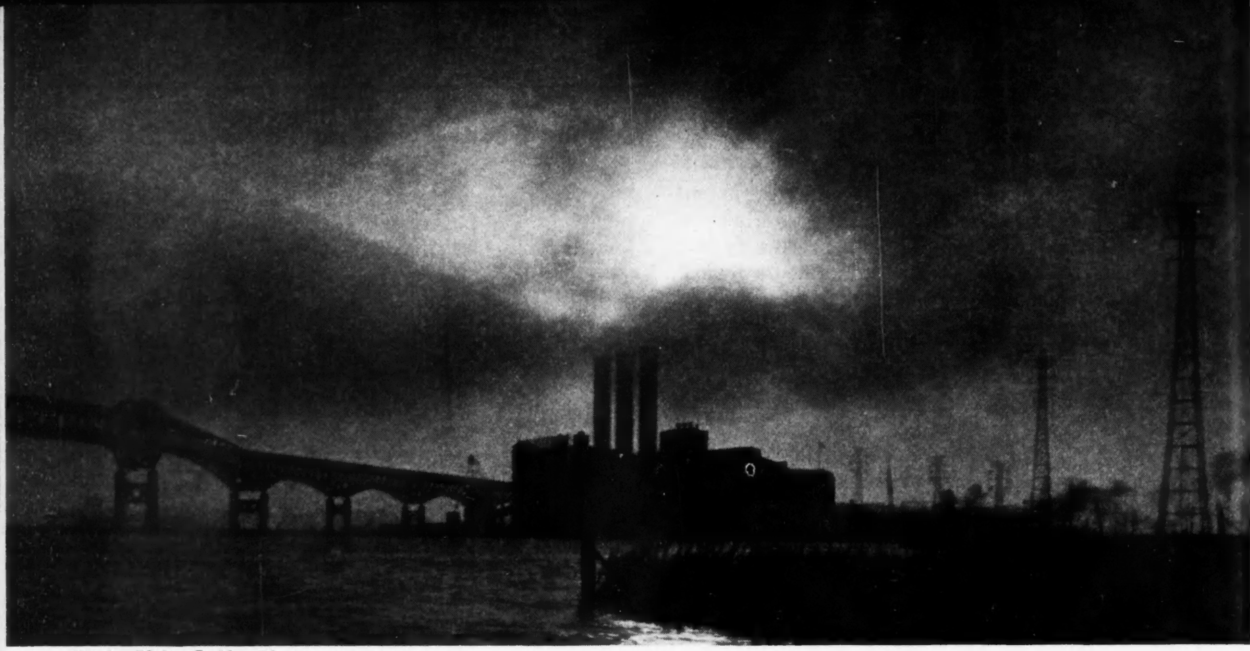
Moreover, the tax blow will fall heaviest on the type of common stock which has long been favored by the income investor. Companies identified with such comparatively stable consumer fields as food, chain stores, retail trade, dairy products, drug products, baking, cigarettes, soft drinks, chewing gum, tin and glass containers, utilities, etc., have been enabled to disburse generous dividends because the nature of their business is such that earnings may be depended to hold up well even under conditions which find heavier industries severely depressed. But also by the same token, theirs is not the type of business which will gain any appreciable impetus, either directly or indirectly, from armament spending. As increased purchasing power is diffused through the economic structure sales of consumer goods may be expected to increase. But with costs also likely to increase, and with competition and consumer resistance acting to retard prompt compensation in the way of increased prices, considerable doubt is cast upon the ability of these companies to meet heavier taxes except at the expense of earnings—and eventually lower dividends.

Prevailing quotations for many issues in the foregoing category would appear already to be discounting the threat of lower dividends. This, however, is no assurance that still lower prices may not be reached, particularly in the event that an even heavier tax program is enacted at the forthcoming session of Congress.

Here then is a situation wherein the income investor must squarely face the realities—realities which lead rather definitely to the conclusion that income next year from consumer type of common stocks is threatened with impairment.

The first step is for the investor to weed out all issues where the recent trend of earnings is dangerously close to the dividend rate. The probabilities are that subsequent earnings will experience a further decline before any improvement is registered.

A portion of the funds thus realized might effectively be diverted to cyclical common stocks. Offhand, this may strike the conservative (*Please turn to page 352*)



Charles Phelps Cushing Photo

RISING TAXATION IS THE CHIEF THREAT BUT IS LARGELY DISCOUNTED AT PRESENT DEFLATED PRICES

The bromidic cry of "Government crackdown" in the utility industry is taking on the characteristics of the famous call of "Wolf! Wolf!" Just as the villagers in the classic fable became immune to the warning, so is the stock market now turning a deaf ear to the old "excuse-all" reason of further Government oppression. This is not to minimize the difficulties which utilities are incurring as a matter of daily course and the likelihood of intensification of such troubles. But a fundamental approach to analysis of the utilities current situation shows that from the viewpoint of near prospective Government activity, at least, fears have been unnecessarily extreme.

It is found, for example, that there is no more talk of establishing nationwide "little T V A's" over large areas of the country for the replacement of private utility enterprises with Government organizations. At the present time, plans for expanding Government power production (notwithstanding the St. Lawrence Seaway Project) reveal far smaller ambitions. And, then, relatively groundless appear the old fears that P W A grants and R F C advances to State power districts and municipalities would create widespread havoc to private interests in the industry. Municipal elections have demonstrated the general direction of the tide in this respect; it has become evident that the industry is to remain predominantly private.

The dreaded "death sentence" imposed by the Public Utility Holding Company Act of 1935 actually has created little dying. While giving notice that the law in this respect would be strictly interpreted, the S E C has acted without undue haste and has shown evidence of cooperation in the gigantic task of geographical realignments and integration of holding companies. And, in spite of the "death sentence," there have been since its imposition occasional outstanding advances (and, of course, declines) in the securities of even the most poorly integrated holding companies.

Under the all-important national defense program, progress in integration can scarcely be accelerated. Interchanges of property, recapitalizations and other activity may be considered in the light of providing possible distraction to the utility industry when it is busily engaged in furnishing power to industry and when the fundamental objective of all industry should be expeditious completion of the armament program.

The proposed huge Government-backed fund to buy up utilities in the Pacific Northwest—far from being a calamity—has brought strength in a number of Pacific Northwest utility securities. An offer already has been made (by the Consumers Non-Profit Public Power Corp.) of $83,000,000 for the properties of the Puget Sound Power & Light Co., with sensational effects on the securities of this company. The $5 preferred stock advanced from the low price of 58 this year to the recent high around 105. The junior $6 preferred soared from 13¼ to 62 on the expectation of the potential sellout of the properties.

If it be conceded that under a right of condemnation and with the backing of the Federal Treasury, private companies could be taken over by the dozens, it must also be realized that the actual money received for properties thus sold may simmer through to figures per share higher than the prices for some of these issues. At any rate, opposition is extensive to spread of Federal operation in the power business even in many parts of the Northwest, which, of course, is the home of the Grand Coulee and Bonneville power developments. In Portland, Ore., strong resistance obviated placing a municipal ownership proposal on the November ballot, and it was demanded that the Federal Government let the people know whether or not it plans to enter the power business in that community.

Are The Utilities Oversold?

BY FRANCIS C. FULLERTON

True, there is much to be detailed on the debit side of the ledger. There is pressure to compel utilities to provide higher depreciation rates. State regulation of utilities has risen and Federal regulation of the industry's finances has been elaborated during the last several years. Only recently, in fact, a Supreme Court decision gave the F P C the power to require licenses for hydro projects even though these be not located directly on navigable streams. And in a recent public speech, S E C Commissioner Healy expressed concern over the large amount of refunding by public utilities within recent years and indicated that common stock issuance provides a flexible means of financing and in the case of operating companies may in certain instances prove a more satisfactory investment than bonds, in view of the present low yield of debt securities.

Net effect of proposals such as those outlined above may be to impede further efforts to reduce fixed charges through refunding programs. The avowed preference of the S E C for stock issues is likely to meet little response among utility executives so long as equity prices are at the present level, since high taxes and the substantial return now considered a regular expectation by investors make the cost of such stock financing difficult.

But, dwarfing the considerations in the two preceding paragraphs, and likewise surpassing in importance the factors of rising fuel, materials and labor costs, is the question of taxes. And, as a tie-in with the tax question, the inflexibility of rates is of the utmost importance in a thoroughgoing analysis of the utility situation. How heavily the taxation yoke has weighed on the industry is indicated in aggregate figures of companies comprising 75% of the electric light and power industry. These show a gratifying increase in income before taxes for the difficult 1929-39 decade of $119,000,000. Taxes, however, completely engulfed the rise, with advances totaling $148,000,000. Higher normal Federal income taxes and (to a few companies) excess profits taxes, are now intensifying the rate of tax increases.

With regard to current excess profits taxes themselves, the industry is one of the more favorably situated, since rate regulations prevent most utility companies from earning much more than 8% in the majority of cases on invested capital. So, too, would the proposed confinement of excess profits taxation to the invested capital base (eliminating the average earnings base) make little difference to the industry, except in the few instances where companies already are in line for paying excess profits taxes.

Prominent among these are El Paso Natural Gas and New York City Omnibus. The former, with an invested capital base credit of only about $1.55 a common share and an average earnings base credit of $2.75 a common share, naturally will choose its earnings base credit this year for excess profits tax computation. Nevertheless, with earnings (before the additional 3.1% normal tax and the excess profits tax) this year likely to be around $4 a share, the company may have to pay a 1940 excess profits tax equal to about $0.45 a share. Next year, other things being equal and if the company does not

Statistics on Representative Utility Stocks

	Capitalization (000 omitted) Bonds	Pfd. (sh. s)	Com. (sh. s)	Working Capital Millions of $	Ratio C.A. to C.L.	Divs. Pd. to Date 1940	Earnings 1939	Est. 1940	Estimated Excess Profits Tax Credit Avg. *Earns.	Inv. Cap. Base	Recent Price
Amer. Gas & Elec.	$225,532	355	4,483	33.2	2.4	$2.00	$2.50	$2.95	**	**	28
Boston Edison	53,000	......	2,469	6.4	1.8	2.00	2.21	2.15	$2.05	$3.90	32
Brooklyn Union Gas	49,000	......	745	7.4	2.6	0.75	2.42	2.50	2.45	5.25	13
Columbia Gas & Elec.	179,732	1,111	12,223	25.3	2.3	0.30	0.46	0.60	0.45	1.65	4¼
Comm. Edison	345,397	......	12,521	51.9	3.4	1.80	2.43	2.25	1.40	2.45	28
Consol. Edison	480,828	2,185	11,471	43.0	2.2	2.00	2.22	2.05	2.00	5.20	21½
Detroit Edison	144,820	......	1,272	12.7	2.2	6.00	7.68	7.70	7.10	12.20	112
N. Y. City Omnibus	7,264	......	486	Deficit		3.25	4.02	3.95	3.85	1.00	24
Pacific G. & E.	287,345	5,370	6,261	7.6	1.4	2.00	2.84	2.50	2.40	4.00	28
Public Service of N. J.	197,785	1,608	5,503	27.3	1.9	2.40	2.88	2.70	2.45	3.70	29
So. Calif. Edison	145,634	292	3,183	Deficit		1.90	2.39	2.10	2.05	4.11	25
Wash. Gas Light	17,420	60	425	0.3	1.1	1.50	2.52	2.50	1.45	3.70	22

* Based on average 1936-39 earnings per share, incl. ** Not subject to computation.

have the option to use its average earnings base, a larger tax would, of course, have to be paid.

Similarly, New York City Omnibus has an invested capital base credit of about $1 a share and an average earnings base credit of approximately $3.85 a share. Estimated 1940 earnings before the additional 3.1% normal tax this year and before excess profits taxes may run close to $4 a share. It is noteworthy that the restriction of excess profits taxes (as officially proposed) to the invested capital base would be a blow to New York City Omnibus because of the wide variation favoring the average earnings base.

In the accompanying tabulation we have listed a number of representative stocks in the utility industry not as a matter of recommendation but to give a cross-section of the earnings and tax setups in comparison with dividends paid or declared payable to date this year. Excess profits tax credit was not figured on American Gas & Electric, since, in common with many holding companies, it has not been possible to estimate excess profits tax exemptions. Not many holding systems own 95% of each class of stock of all subsidiaries, with the result that there are few possibilities for filing fully consolidated net returns for excess profits tax purposes.

The effect of the apparently inevitable increase in normal Federal income taxes next year is likely to be definitely harmful to the utility industry's profit margin. Basic reason for this is the rigidity of the rate structure. It may be possible that State regulatory bodies may recognize the justice of higher rates to meet rising costs in our defense emergency, but such rate gains, if they were instituted, would be purely temporary and would lag behind the upturn in costs.

As an example of how the increase in Federal income taxes would affect utilities, the various potential rate bases might be applied to several issues where capitalizations permit such elaborate computation. There are several confusing angles of such computations, among which are the accepted practice of some statistical institutions of deducting Federal taxes before bond interest, while this may be frowned upon by others. Moreover, with excess profits taxes determined by the amount of profits after the full normal tax and with many complicated capitalizations in the utility industry, it is impracticable to formulate a tax table for very many issues.

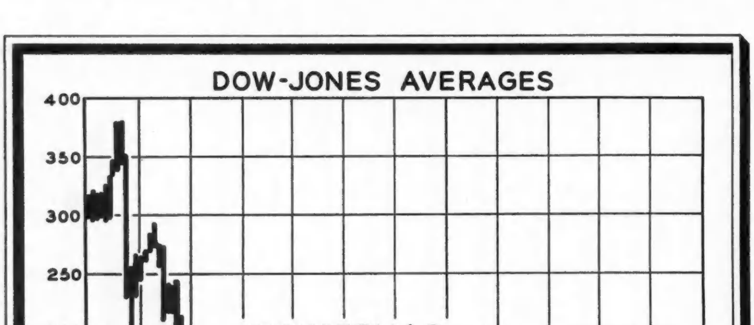
Taking the case of Boston Edison, which has a relatively simple capitalization, the company may report 1940 earnings after all taxes, including the 24% normal tax, equal to approximately $2.15 a common share. If the normal Federal income tax base were advanced to 30% (now a common expectation) Boston Edison's net income, other things being equal, would be cut to $1.98 a common share. And, then, if the present English tax base of 42½% be applied, earnings would be cut further down to $1.63 a share, or substantially less than the current annual dividend of $2 a share.

Using another example, Commonwealth Edison this year may earn about $2.25 a common share after all taxes, including the 24% normal Federal income tax. On a 30% normal Federal income tax base (such as suggested by Senator George), however, equivalent earnings would be reduced to $2.07 a share, while the application of a 42½% normal base would bring it to $1.70 a share—somewhat under the 1940 dividend payments of $1.80 a share.

Inflexible Rate Base Creates Troubles

As previously emphasized, the crux of the utilities' difficulties lies in the inflexible rate base. Where most industries pressed by advancing costs resort to the simple expedient of raising prices, this recourse is not open to the utilities, except after elaborate negotiation. This question dovetails into President Roosevelt's statement that a working arrangement is establishable between the Government and the utility companies if they would charge fair rates on a properly valued and capitalized base.

The effect of the application of the "fair-return-on-true-value" principle is of such importance to both operating and holding company securities that it is interesting to take stock of it at this point. First, it may be noted that a rate reduction enforced upon an operating unit generally results in immediate promotional sales activity to expand consumption in the territory in order to recover the former revenue level. Consumption of existing customers is increased, new customers are added and a greater number of new appliances is sold as a result of the decreased monthly cost of operating such appliances. Wherever a fair return on the true value of a utility provides net earnings sufficient to cover fixed charges by a fair margin, the bondholder has nothing to fear and his position is materially improved by broadening the total consumption of power at a lower rate level. Such reduced rates and increased consumption greatly improve the stability of fixed charge coverage and provide a greater resistance to decline result- (*Please turn to page* 349)



Evaluating U. S. Rubber Under Today's Conditions

Domestic Outlook Promising But Important Foreign Uncertainties Persist

BY JESSE J. HIPPLE

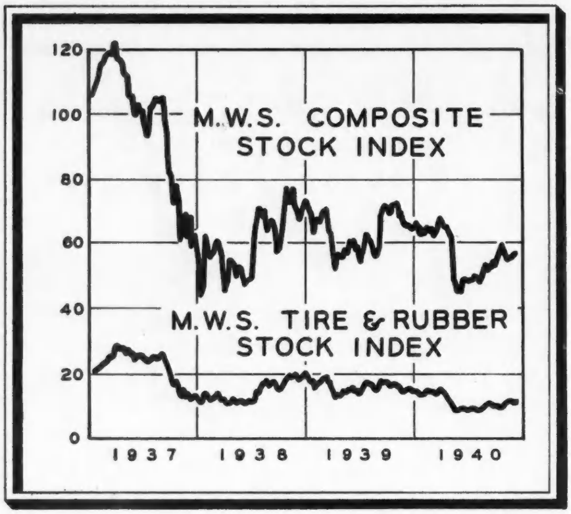
Courtesy U. S. Rubber Co.
Pouring latex batter into the mattress mold in which it will be baked.

FROM all indications, it would now appear that the year 1940 has been a record-breaking one in some respects for U. S. Rubber Co. Total sales are expected to exceed those of any previous year of its history by a substanial margin and the company will enter into the new year with an unprecedentedly high backlog of unfilled orders for non-automotive materials.

U. S. Rubber, in common with all other large rubber companies, issues sales and earnings figures only semi-annually, but since it is rated as being the largest individual fabricator in the country, the monthly statistics released by the Rubber Manufacturers Association are likely to be typical of what the company is doing.

According to the R.M.A. figures, the American rubber industry consumed 561,810 long tons of rubber in the first 11 months of this year as compared with 542,364 long tons in the same period of the previous record year, 1939. On this basis it is probable that full year 1940 consumption will be in the vicinity of 610,000 long tons or nearly 6 per cent more than a year ago which was the previous record high for annual consumption. The quantity of rubber consumed in any given period is indicative of the demand for all rubber goods and as such is an excellent clue to the industry's operations. With record consumption of crude rubber in prospect, it is probable that U. S. Rubber Co. is operating somewhere near peak capacity.

About half the company's production is automotive tubes and casings sold for original equipment and replacement. Action to set up large stocks of automobiles in anticipation of the establishment of priorities has been an unexpected wind-fall for the tire manufacturers. Earlier in the year it seemed as if original equipment sales to automobile manufacturers would do well to hold at 1939 levels. Now such shipments are said to be running approximately 25 per cent above those of a year ago. As an offsetting factor, replacement shipments have been lower than a year ago although at a relatively favorable level for the year as a whole. Better demand for original equipment tires and tubes is more fully reflected in profits. There have been no recent changes in the selling prices of replacement equipment, but only last August new equipment tires and tubes were increased in price by 10 per cent to 15 per cent, thus adding to the manufacturers' margin of profit on this substantial portion of their business. It is probable that a further increase will be put into effect in the relatively near future. Large dealer inventories of replacement equipment were built up during the final quarter of 1939 in anticipation of higher prices to come at that time but dealer stocks are now back to normal levels and order for additional tires and tubes are expected to rise during the next several months.



U. S. Rubber Co.'s tire and tube business is about equally divided between original equipment and replacement materials. General Motors Corp. is probably the largest customer although other manufacturers are also supplied. Replacement sales are made through a strong dealer organization and their sales volume is augmented by the fact that several of the largest retail chain store distributors of automotive equipment obtain their tires and tubes from U. S. Rubber Co.

The sale of tires and tubes represents about 50 per cent of the company's total business; mechanical and other manufactured rubber goods sales making up the remainder. It is not generally realized how extensive the non-automotive side of the rubber fabricator business is today. U. S. Rubber's other products include some 50,000 separate items ranging from finger caps to long rubber transmission belts, with many indispensable items in between.

While tires and tubes are highly necessary to the Army in view of the mechanization of present-day equipment, many non-automotive materials are also of importance to the efficiency and well being of the nation's armed forces. These products include footwear—of which U. S. Rubber Co. is the country's largest manufacturer—rainproof clothing and shelters, mattresses and waterproof sheeting and bullet-proof tires, puncture-proof gasoline tanks and lightweight armor for airplanes.

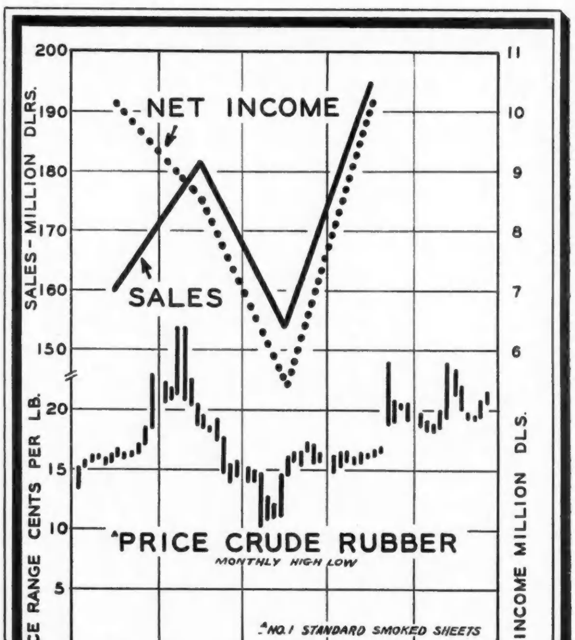
The puncture-proof gasoline tanks are a comparatively new development of the company but they have already withstood every possible test and are now in production at several plants. The company reports that several hundred of these tanks have already been installed in the American fighting planes and bombers while large numbers are scheduled for later shipment. For obvious reasons, the actual details of construction of these tanks are not disclosed but generally speaking the tanks are so constructed that a bullet hole is immediately sealed and thus prevents disastrous gasoline leaks and fires.

Rubber armor plate for airplanes has also been severely tested and is reported to have turned heavy calibre projectiles at relatively short range. However, in this case also, there are no available details although it is not probable that this particular material is as yet in important production.

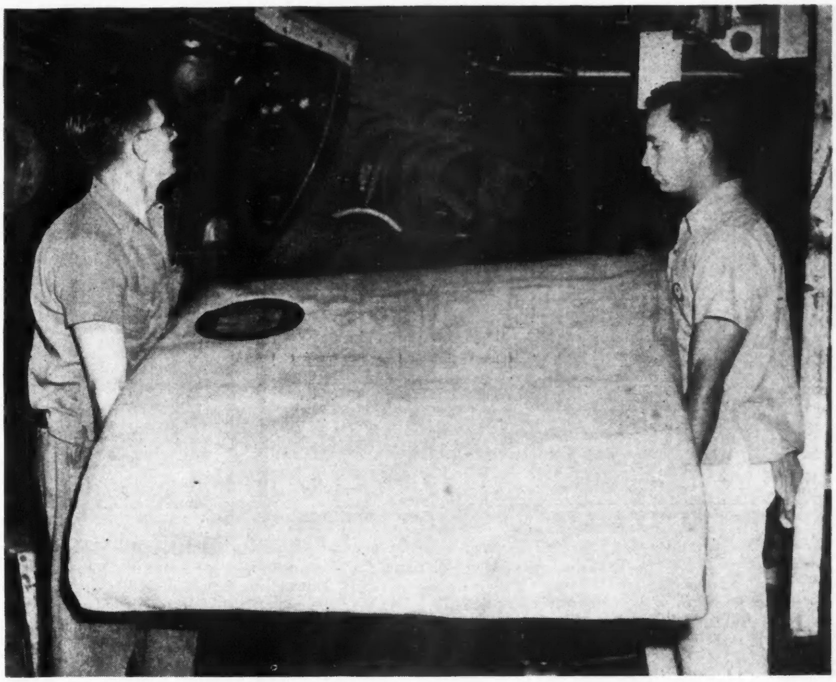
What these particular developments may mean to U. S. Rubber Co. in terms of earning per share is an unknown quantity for details of volume and prices are lacking. They should assist materially in maintaining peak production volume in the mechanical rubber goods division where the leverage factor of operations above break-even levels is important.

The company's sales for 1940 are expected to total approximately $220,000,000 as compared with $195,000,000 in 1939. If achieved, this would constitute a new high record. Better rubber business in general accounts for a part of the strong increase in sales although the acquisition of the assets of the Fisk Rubber Corp. at the close of 1939 is probably the largest contributing factor. The Fisk Rubber Co. was a going concern with annual sales of better than $17,000,000 and operating profits of $806,000 in 1939 when it was acquired for $6,827,330 and 109,981 shares of U. S. Rubber common stock. While the market price of the common stock on the date of the acquisition was $40 a share, the figure at which the shares were carried on U. S. Rubber Co.'s books was but $10 a share, thus making possible an addition of $3,299,430 to capital surplus. Acquisition of the manufacturing facilities of Fisk Rubber is reputed to have increased the productive capacity of U. S. Rubber Co. to nearly 70,000 auto casings daily and it was for this purpose that Fisk Rubber was acquired. Thus, for a net outlay of less than $8,000,000 U. S. Rubber acquired net assets of $9,808,989 and added several well known trade marks and substanial production facilities to its equipment.

Up until recently, the company's foreign holdings were the cause of much uncertainty. A statement as to depreciated values and contribution to consolidated earnings has done much to clarify this situation. Rubber plantations in Netherlands East Indies and British



Malaya now have a book-value of approximately $21,500,000 and this sum is nearly equally divided between the two properties. In the first six months of the current years, these plantations contributed net earnings of $1,029,788 or approximately 25 per cent of consolidated net earnings of $4,234,239 for the period. Other foreign interests which brought the company's outside holdings up to a total of $36,387,352 were mainly concentrated in Canada. English, Continental European and other foreign properties were shown at a depreciated book value of $3,355,699.



Courtesy U. S. Rubber Co.

Installing a bullet-sealing gasoline tank in the wing of a partially completed bomber.

The rubber plantations are extensive, totaling some 132,000 acres. Of this amount, approximately 100,800 acres are now under cultivation while at the close of 1939, 77,700 acres were in production. Last year's rubber production from the 77,700 acres was 53,501,000 pounds or approximately 23,900 long tons, but due to the lifting of production restrictions during a large part of 1940, it is probable that this year's output will be considerably larger and will increase as additional acreage comes into bearing. As it now stands, last year's production of 689 pounds of rubber an acre was a new record for the plantations even though the year's total output was below the previous high figure by a moderate margin.

Since these plantations are located in the center of what may be a troublesome war area in the event that this country becomes involved with Japan, their status will continue to be uncertain and will cause the company's shares closely to reflect in their market value the changing aspects of the scene. If Japan should take over control of the Netherlands East Indies and no forcible action is forthcoming from this country then the status of these plantations will probably be unchanged. The British Malaya properties are in less danger than those of the Netherlands East Indies unless Japan should attempt to try her strength with Great Britain. Such an event is not likely to occur unless Britain's position becomes much worse than at present.

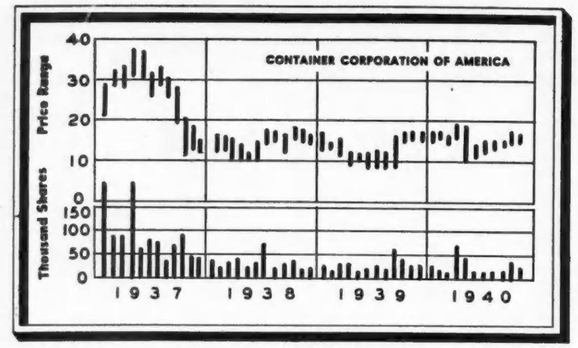
Although U. S. Rubber operates one of the most successful rubber plantations, the quantity of rubber obtained from them only partly serves the company's extensive requirements. In common with all other rubber fabricators, it depends mostly upon outside sources for its supply. In order to arrive at the possible position of the company in the matter of raw material supplies we must again resort to general industry figures. R.M.A. statistics for the month of November indicated that rubber stocks in fabricators' hands were at new high levels since the war. The Association estimated that the industry had on hand approximately 276,943 long tons of rubber at the close of last month. In addition to the amount already on hand there were estimated to have been another 158,095 long tons of rubber afloat in transit to this country as well as 33,143 long tons of reclaimed rubber also in stock. Added to this amount in the hands of the manufacturers or in transit, the U. S. Government had 85,669 long tons in stock for defense purposes should the need arise. To the Government stock will be added approximately 150,000 long tons of rubber at a later date. This is on the promise of the British Government and can be accomplished, for 1940 rubber production is estimated to have exceeded world consumption by more than 400,000 long tons and thus leaves a considerable surplus.

From these statistics it would not seem as if the American rubber industry is facing any threat of near term shortage of raw material for there is already more than a ten months' supply of crude rubber in this country and imports continue at record levels; well above the rate of consumption. Other basic materials for the fabrication of rubber such as cotton, sulphur and carbon black are produced in large volume in this country and current inventories are more than ample.

Over the longer term it is probable that U. S. Rubber will be able to secure ample supplies of both natural and synthetic rubber from sources nearer to home. Brazilian rubber production has turned the corner and is now on the way back to its former position where it was able to supply the world with more than 600,000 long tons of rubber yearly and synthetic rubber production is being stepped up under the influence of already increasing demand because of the many unique properties of the various sort of rubber substitutes. U. S. Rubber has its own synthetic rubber which it currently makes in small quantities and for the present uses it mostly in the manufacture of footwear and other objects. If necessary, the company's (*Please turn to page* 348)

Six Stocks Selling at Less

CONTAINER CORPORATION OF AMERICA



BUSINESS: Continer Corp. is the leading manufacturer of a large variety of paperboards used in its making of paper boxes, cartons, shipping and packing containers. The company numbers among its customers most of the processors of nationally known food products, dairy products, medicinal preparations and beverages. Seven owned paper mills supply a great part of the company's needs and box plants are located in strategic industrial points. About half of the company's paper board output is sold to other converters although the company buys some special boards outside. Pulp supplies are adequate.

FINANCIAL POSITION: As of December 31, 1939, the funded debt stood at $5,126,000; representing a decline of more than $800,000 from the previous year and more than $1,300,000 from the total at the close of 1937. Since then the entire debt has been retired through low cost bank loans. The bank debt is followed by 781,253 shares of $20 par value capital stock. At the beginning of the current year, total current assets of $6,592,559 were more than three times greater than total current liabilities of $1,882,983. Cash at $1,044,918 was satisfactory for current needs and has very probably since been expanded. Inventories of $3,644,189 were about $800,000 higher than a year before but were not burdensome in view of the condition of the paper industry and recent nine months' sales of better than $22,000,000. No definite dividend rate is set, payments being determined by earnings.

OUTLOOK: Demand for the company's products has always been good. The main profit determinant is the price of paper and the ability of the company quickly to pass higher material costs on to the consumer. Present circumstance favor profit margins as may be seen from the sharp improvement in this year's earnings over those of a year ago. The company has announced the development of a new container made of rubber which is particularly applicable to "quick-freeze" packaging. The new package sharply reduces package costs and at the same time is more satisfactory than other materials now being used.

MARKET ACTION:	Container Corp. of Amer.	Market Average	Container's moves in relation to avge.
'37 high to '38 low........	74% decline	64% decline	15% wider
'38 low to '38 high........	82% advance	76% advance	8% wider
'38 high to '39 low........	48% decline	34% decline	41% wider
'39 low to '39 high........	89% advance	44% advance	102% wider

Average volatility on four moves 41% greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—15. Newly developed products promise to increase earnings by a substantial margin as they are adapted to consumer packaging as well as the present bulk containers. Control of adequate paper supplies assures reasonable control of prices.

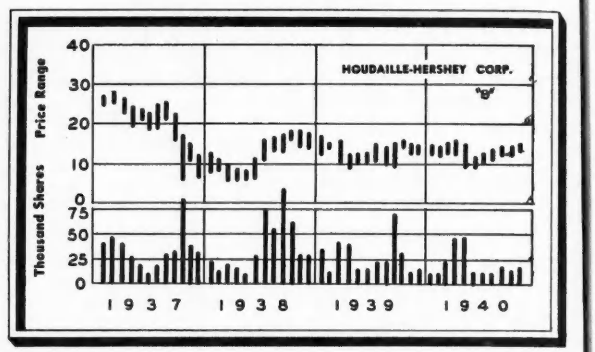
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932......	$11.458	d$1.380	NC	NC	NC
1933......	15.420	.141	NC	NC	NC
1934......	18.317	1.113	NC	NC	NC
1935......	20.182	1.238	$1.89	....	23⅛-22
1936......	22.525	1.287	1.97	$1.25	26¼-15¾
1937......	25.268	1.784	2.28	1.20	37⅜-10¾
1938......	18.705	.029	0.04	0.30	17¾- 9¾
1939......	24.115	1.449	1.85	0.25	17¼- 9⅛
'40 (9 mos.)	22.588	1.930	2.47	*1.50	*19½- 9⅞
'39 (9 mos.)	16.320	.285	0.36	....	....

d—Deficit. NC—Not comparable due to recapitalization. *—To date.

Thumbnail Stock Appraisal

HOUDAILLE-HERSHEY CORP.



BUSINESS: Houdaille-Hershey Corp. is perhaps best known as a manufacturer of shock absorbers for automobiles but in addition to this particular line the company manufactures many other automotive products including automobile bumpers, brake levers, automobile locks and steering knuckles. A subsidiary manufactures auto crank shafts, cam shafts and other parts. Non-automotive products include fractional horse-power engines and also compressors for air or for use with electrical refrigeration units. Automotive equipment accounts for approximately half the company's business. Ford is perhaps the company's largest customer although business is also done with General Motors, Chrysler and a number of others.

FINANCIAL POSITION: There are neither funded debt nor bank loans. The capital obligations consist of 174,000 shares of $2.50 dividend Class A preferred and 785,000 shares of Class B. The Class A has preference as to dividends up to $2.50 a share and is convertible into Class B on a share for share basis until 1953. At the close of 1939, total current assets of $7,360,707 were nearly 5 times greater than total current liabilities of $1,570,171. Total current liabilities were also well below the combined amounts of cash and marketable securities which were shown as $2,250,767 at the year end. Year end inventories were $2,646,488 as compared with estimated sales of $15,000,000 for the year.

OUTLOOK: The company manufactures many items which are currently in strong demand not only for the automobile but also for military vehicles. The recent acquisition of the bumper division of Eaton Manufacturing Co. of Jackson, Michigan gives the company additional production capacity. Most of the current improvement in the company's business has accrued from its normal commercial connections although Houdaille-Hershey will proably participate in defense orders in its own name at some later date. In the interim, strong activity in the automotive industry promises this company adequate quantities of new business for the coming year.

MARKET ACTION:	Houdaille-Hershey Corp.	Market Average	Houdaille-Hershey's moves in rel. to av.
'37 high to '38 low........	78% decline	64% decline	21% wider
'38 low to '38 high........	204% advance	76% advance	169% wider
'38 high to '39 low........	49% decline	34% decline	44% wider
'39 low to '39 high........	80% advance	44% advance	82% wider

Average volatility on four moves 79 % greater than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—14. The trend of earnings should continue upward and dividends should reflect the improvement in earning capacity.

Long-Term Record

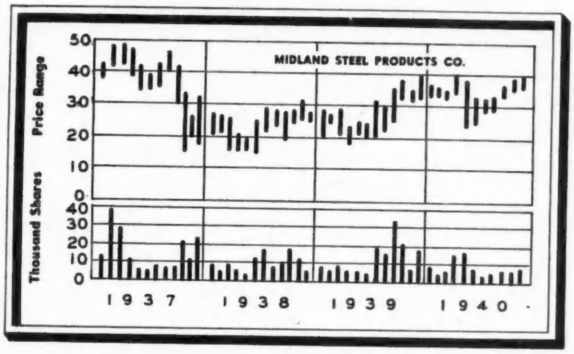
Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932......	NA	d$ .591	d$1.31	....	4¼- 1
1933......	NA	d .114	d0.69	....	6¾- 1
1934......	NA	.931	0.63	....	8¾- 2¾
1935......	NA	2.456	2.57	$0.25	31½- 6⅝
1936......	NA	2.202	2.25	2.87½	32¾-22⅝
1937......	$20.714	2.117	2.14	1.50	27¾- 7¼
1938......	11.503	.588	0.20	....	17⅞- 5⅞
1939......	NA	1.488	1.34	0.75	16¼- 9
'40 (9 mos.)	NA	1.573	1.59	*1.50	*16¼- 8¾
'39 (9 mos.)	NA	.773	0.57	....	....

NA—Not available. d—Deficit. *—To date.

Thumbnail Stock Appraisal

Than 10 Times Dividends

MIDLAND STEEL PRODUCTS CO.



BUSINESS: The company is mainly a producer of automobile frames and parts which it supplies to many of the major automobile manufacturers including Ford, Chrysler and Studebaker. Other products include a special type of auto brake, axle housings and numerous other stamped and welded steel products. Non-automotive products include patented oil and gasoline burning devices used in heating and cooking stoves and likewise the company has developed an oil-burning refrigerator for use in areas beyond electric service lines. Although no defense business has been reported, the company is in an excellent position to manufacture many small parts and ammunition if required to do so.

FINANCIAL POSITION: Midland Steel Products Co. has no funded debt and at the close of last year had no bank loans or other obligations prior to the 94,925 shares of 8 per cent $100 par value 1st preferred stock, 57,700 shares of non-cumulative $2 dividend preferred and 234,915 shares of no par value common stock. At the same date total current assets of $10,788,302 were more than 5 times greater than total current liabilities of $1,924,313. Cash and marketable securities of $6,398,127 were themselves better than 3 times larger than the total quick debt. Dividends have been maintained since 1936 at high rates and prior to the resumption of payments in 1936, the only lapse in many years was in the depression period from 1933 to 1935. Current dividend payments closely follow earnings.

OUTLOOK: Without recourse to any defense business of size, the company has been able to improve upon last year's very satisfactory showing as far as earnings per share are concerned. New tax rates have moderately restricted current net income although the high average earnings for the past four years give ample protection against the imposition of sizable excess profits taxes under prevailing tax schedules. With no appreciable diminution of business from its principal automobile customers in prospect and possibilities of some defense business later to accrue, the company should have little difficulty in maintaining earnings at high levels.

MARKET ACTION:	Midland Steel Products	Market Average	Midland Steel's moves in rel. to av.
'37 high to '38 low.......	70% decline	64% decline	9% wider
'38 low to '38 high.......	100% advance	76% advance	31% wider
'38 high to '39 low.......	39% decline	34% decline	14% wider
'39 low to '39 high.......	123% advance	44% advance	180% wider

Average volatility on four moves 59% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—45. The attractively high rate of current return seems assured of continuation for a reasonable period of time. There are also some appreciation prospects.

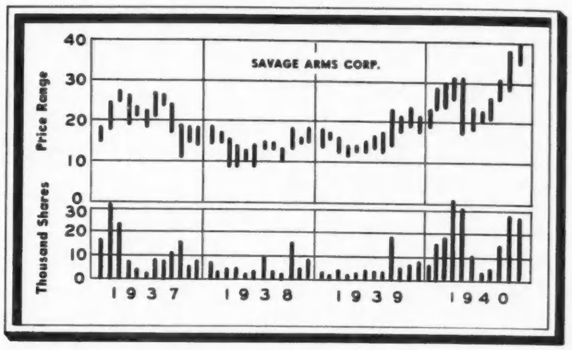
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932......	NA	d$ .221	d$4.67	$0.75	12⅜- 2
1933......	NA	.673	d0.86	....	17¾- 3
1934......	NA	.681	d0.83	....	21⅞- 6½
1935......	NA	1.634	3.23	....	24⅞- 8¼
1936......	NA	2.160	5.47	4.00	48⅝-21⅝
1937......	$22.253	2.321	6.15	5.00	48½-15
1938......	13.054	1.451	2.45	1.00	30⅜-15¼
1939......	18.426	2.235	5.79	5.00	40 -18⅜
'40 (9 mos.)	NA	1.351	2.96	5.50	*45 -23½
'39 (9 mos.)	NA	1.266	2.59	....	....

NA—Not available. d—Deficit. *—To date.

Thumbnail Stock Appraisal

SAVAGE ARMS CORP.



BUSINESS: The Savage Arms Corp. and its predecessor companies have long been famous as makers of non-military fire arms which include repeating and single-shot scatter guns, sporting and target rifles as well as ammunition. Savage Arms owns the patent rights to the Lewis Machine Gun used extensively in the last world war but not manufactured in sizable amounts since that time. The company also manufactures ammunition suitable for guns of other than its own manufacture and is equipped to turn out this material in quantities. As diversifying products Savage Arms also manufactures a number of pressed steel items including household washing and ironing machines, dry cleaning apparatus and ice-cream cabinets, but its ability as a manufacturer of machines and tools especially designed for the production of arms and ammunition is probably the most important at this time.

FINANCIAL POSITION: An issue of 10 shares of non-cumulative dividend preferred stock is the only capital obligation prior to the 167,715 shares of no par value common stock. The preferred stock is the sole survivor of an original non-callable issue of 2,212 shares. There is no funded debt and at the beginning of the year there were no bank loans. The year end balance sheet showed the company to be in a comfortable financial position with a current asset ratio of better than 6 to 1 and more than 30 per cent of $2,788,019 in current assets being cash. Inventories of $1,704,807 were modest in view of sharply higher current sales and the prospect of considerable additional Government business.

OUTLOOK: The company's business has been stimulated by the belief that defense plans will place a damper upon future supplies of private arms. This rush of private demand has been accentuated by the normal betterment of private fire arms sales which usually occurs in times of rising consumer buying power. The company has only recently received a Government order amounting to $17,000,000 for machinery although the results of this and approximately $43,000,000 of other Government orders will not be fully apparent until next year.

MARKET ACTION:	Savage Arms Corp.	Market Average	Savage's moves n relation to average
'37 high to '38 low.......	67% decline	64% decline	4% wider
'38 low to '38 high.......	125% advance	76% advance	64% wider
'38 high to '39 low.......	45% decline	34% decline	32% wider
'39 low to '39 high.......	114% advance	44% advance	159% wider

Average volatility on four moves 65% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—38. Next year's production is expected to reach approximately $3,000,000 monthly

Long-Term Record

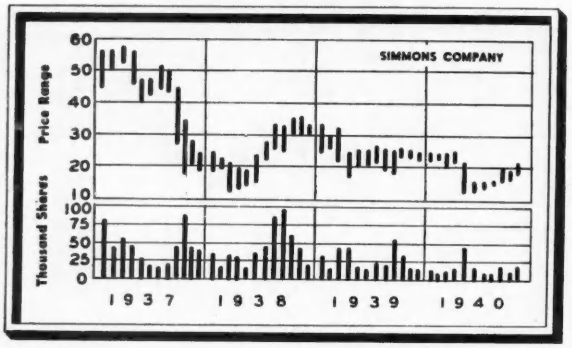
Year	Total Income (000)	Net Income (000)	Net Per Share	Dividends	Price Range
1932..........	d$.138	d$.349	d$2.15	....	7⅜- 1¼
1933..........	.014	d.236	d1.47	....	12 - 2¼
1934..........	.182	.027	0.10	....	12¼- 5⅛
1935..........	.297	.102	0.57	....	13⅝- 6
1936..........	.451	.246	1.45	$1.00	17⅞-11
1937..........	.786	.457	2.72	1.50	27½-11
1938..........	.305	.060	0.36	0.25	19¾- 8¾
1939..........	.650	.349	2.08	1.25	23 -10¾
1940 (9 mos.)..	....	.578	3.44	*4.00	*41½-17
1939 (9 mos.)..	....	.229	1.37	....	....

d—Deficit. *—To date.

Thumbnail Stock Appraisal

Six Stocks Selling at Less Than 10 Times Dividends

SIMMONS COMPANY



BUSINESS: Simmons Company is known principally as a manufacturer of a large and popular line of sleeping equipment ranging from beds to mattresses of all types but it also has lesser known activities such as the manufacture of napery, ticking, flannels, upholstery, and other textiles. Some of the company's textile products are converted by a subsidiary while a wholly owned bank and acceptance company does a cotton factoring business of moderate size. Approximately 96 per cent of the company's total sales are for domestic account while the greatest part of the foreign business is done with Canada. Mail order houses and retail stores are the largest outlets for the company's other than textile products while jobbers account for anly a modest part of total sales volume.

FINANCIAL POSITION: Approximately $10,000,000 of 4 per cent, convertible debenture bonds precede the 1,158,236 shares of no par value capital stock currently outstanding. Despite the fact that the company does a large acceptance business, there are no bank loans. The company characteristically maintains a strong financial position with cash items alone usually well in excess of total current liabilities. Due to the nature of the business, accounts receivable are high in relation to total sales but collections have been good in recent years and dealers are not unduly extended. Last year's net working capital of $15,404,321 was the highest of any in more than a decade and was ample for the company's needs.

OUTLOOK: As a manufacturer of tickings and various textiles normally imported from Europe in competition with American made goods, the company has benefitted extensively from the war. Sales of bedding and springs have stepped up sharply with improved consumer buying power while small orders for steel equipment have been coming in from the government. Supplies of all raw materials used by the company are ample and reasonably low in price thus improving the company's mill margins.

MARKET ACTION:	Simmons Company	Market Average	Simmon's moves in relation to average
37 high to '38 low.......	79% decline	64% decline	23% wider
'38 low to '38 high.......	182% advance	76% advance	139% wider
'38 high to '39 low.......	51% decline	34% decline	50% wider
'39 low to '39 high.......	87% advance	44% advance	98% wider

Average volatility on four moves 77% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—20. Earnings are approaching record proportions, relatively good income over the past four years makes the problem of excess profits taxes light. Current dividend rates should be later improved.

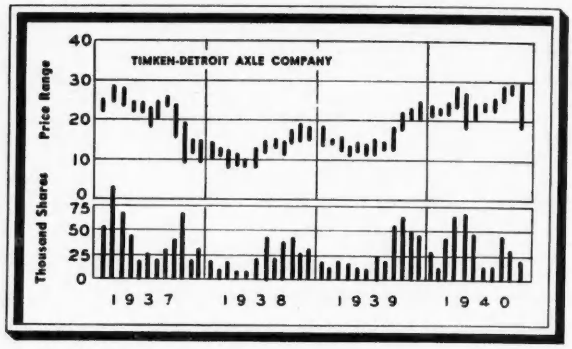
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932......	$18.818	d$2.884	d$2.57	....	13⅜- 2¾
1933......	24.309	.051	0.04	....	31 - 4⅜
1934......	26.187	d .949	d0.84	....	24⅛- 8⅛
1935......	30.692	1.291	1.14	....	20½- 6
1936......	41.332	4.003	3.53	$3.00	48⅞-19¾
1937......	44.360	3.314	2.88	2.25	58 -17½
1938......	34.818	1.645	1.42	1.25	35½-12⅝
1939......	39.238	2.447	2.11	1.75	32¾-17½
1st ½ 1940	18.253	1.055	0.91	*2.00	*24 -12½
1st ½ 1939	17.375	.708	0.61	....	....

d—Deficit. *—To date.

Thumbnail Stock Appraisal

TIMKEN-DETROIT AXLE COMPANY



BUSINESS: Timken-Detroit Axle Co. is probably as well known as the manufacturer of the popular Timken oil burner as it is for its line of automotive products. But, just at present, Timken's line of heavy duty truck axles and similar automotive products are in greatest demand, for they are not only usable in the manufacture of ordinary commercial vehicles but are also adaptable to military vehicles of many kinds. Another activity of the company, the manufacture of wood-working machinery, is also experiencing a strong demand, with the result that while oil burner sales are at relatively high levels, other non-automotive products are becoming increasingly strong contributors to income.

FINANCIAL POSITION: The company has no funded debt nor are there any bank loans outstanding despite the sharp improvement in the company's business. Current assets of $11,789,686 at the mid-year were more than three times as large as total current liabilities, while cash alone was substantially as large as the entire quick debt of $3,900,766. Net working capital on June 30—reflecting mainly a sharp betterment in cash items—was $1,000,000 higher than a year ago at $7,888,920. Inventories, on the other hand, were moderately lower at $4,903,364 and were low in comparison with estimated net sales of $30,000,000 or more for the current year.

OUTLOOK: Commercial demand for trucks and other heavy duty vehicles will probably continue good while the demand for military vehicles both for domestic and foreign use will rise even above current high levels. All of which indicates a strong continued demand for rear axles and other material such as manufactured by the company. Direct war material orders reported have been small, although much of the material sold to others has been used in the filling of defense orders. In addition to the company's normal line of products there will probably develop a demand for other materials for armament use.

MARKET ACTION:	Timken Detroit Axle Co.	Market Average	Timken's moves in relation to average
'37 high to '38 low.......	72% decline	64% decline	12% wider
'38 low to '38 high.......	142% advance	76% advance	87% wider
'38 high to '39 low.......	44% decline	34% decline	29% wider
'39 low to '39 high.......	132% advance	44% advance	222% wider

Average volatility on four moves 20% greater on declines but 155% greater on advances than M. W. S. index of 309 common stocks.

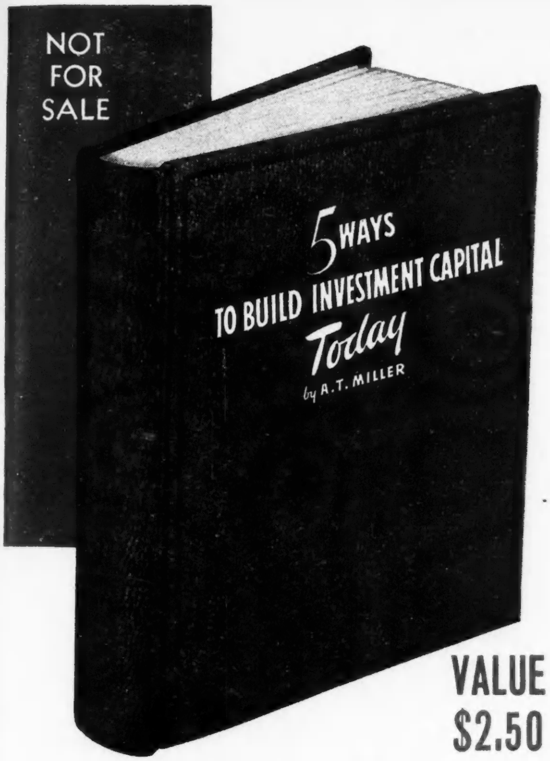
COMMENT: Recent price—29. Earnings this year are currently estimated to be in the vicinity of $4.25 a share of common stock as compared with $2.62 a year ago. This in spite of relatively heavy increases in taxes due to excess profits levies.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1931......	NA	$ .328	$0.13	$0.40	12 - 3½
1932......	NA	d1.194	d1.40	....	6¾- 2
1933......	NA	d1.257	d1.48	....	8¼- 1½
1934......	NA	.426	0.24	....	8½- 3⅞
1935......	NA	1.173	1.02	....	13⅛- 4⅝
1936......	$21.279	2.310	2.19	2.00	27⅞-12⅛
1937......	23.539	1.811	1.69	1.50	28⅞- 8¾
1938......	14.528	.828	0.70	0.50	19⅜- 8
1939......	23.480	2.654	2.62	2.00	25 -10¾
1940(J)....	......	3.649	3.69	*3.25	*29⅞-18

(J)—For 12 months ended June 30, the new fiscal year end. All prior figures for 12 months ended December 31. NA—Not available. d—Deficit. *—To date.

Thumbnail Stock Appraisal



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Atlas Powder Co.

The recent weakness in chemical shares despite record chemical business and the importance of the chemical industry to our National Defense Program prompts me to ask your opinion of the investment status of Atlas Powder. I have 50 shares purchased at 80. How do orders for explosives and blasting powder stand now . . . including backlogs? Would additional orders from now to mid 1941 necessarily be reflected in greater earnings and further appreciation for this stock? Are the company's facilities . . . program for expansion such to be able to place further arms orders into production early in 1941? Will you kindly give me all information regarding above, as well as costs, the company's competitive position in the industrial chemical field—new potential markets—any such additional data which will help me to make up my mind to hold or sell.—L. N. W., Lubbock, Texas.

For the first nine months of 1940 earnings of Atlas Powder increased about 57 per cent to $3.48 per share as compared with $2.31 for the similar period of 1939. The recent dividend of $2.00 per share brings the year's total to date to $4.25 as compared with $3.00 for 1929. The company enjoys a strong financial position and as of September 30, 1940, total current assets of $11,161,750 including cash and marketable securities of $5,330,260 compared with total current liabilities of $2,482,475.

The main business of the company has long been the manufacture of explosives and blasting powder which account for about 70 per cent of sales and are used extensively in the coal, construction, quarrying, metal mining and railroad industries. The European war coupled with our rearmament program has stimulated the business of Atlas Powder and a sizable backlog of orders has been built up. At the current rate of earnings the company does not appear to be unduly affected by the excess profits tax at least as it now stands, if the company will be permitted to calculate their tax obligations on an invested capital base. Of course, future changes in the methods of taxation could materially affect future results.

In evaluating the outlook of the company it would seem that in view of the increasing demand for explosives operations in months to come are not likely to diminish. Profit margins which may be narrowed by increased taxes should remain favorable. In the event of an early peace resulting in the tapering off of British orders domestic demand would act as a stabilizing factor due to our rearmament program which give signs only of increasing and not diminishing. Consequently it appears that profit margins should not be adversely affected, in fact, with no important price or cost changes on the horizon, the profit margin may tend to widen.

Consequently it is our belief that commitments in Atlas Powder Co. stock should be retained, both for current and prospective growth in earning power and dividends.

Texas Pacific Coal & Oil

For an investor who has 200 shares of Texas Pacific Coal & Oil purchased at 11⅛ do you counsel retention for an early return to that level . . . or do you recommend switching at this time? In your reply please tell me how the position of the company should be affected by its recent purchase of a half interest in Ohio Oil. I also wish to know whether Texas Pacific is situated to benefit from the U. S. Government's mechanization program; to what extent accelerated industrial activity should increase its demand for the company's oil reserves; effect of present price of crude, current proration schedules.—L. P. S., Los Angeles, Calif.

For the first nine months of 1940 earnings of Texas Pacific Coal & Oil contracted rather sharply from the 70 cents reported for the same period in 1939 to 39 cents per share. Gross earnings declined about 8.2 per cent while expenses were cut only 1.2 per cent. The depreciation and depletion account, however, increased 6.5 per cent. High depreciation charges and general deductions with the failure to cut expenses in proportion to operations is largely responsible for the sharp contraction of approxi-

(*Please turn to page* 344)

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Another Look At . . .

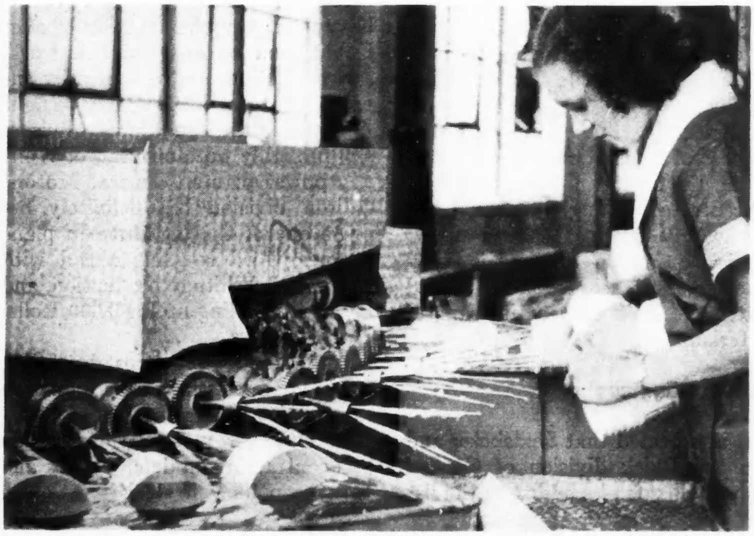
CERRO DE PASCO
SUTHERLAND PAPER
MAY DEPARTMENT STORES
INSPIRATION COPPER
ACME STEEL

During 1940 **Cerro de Pasco Copper** paid dividends totaling $4 a share. Selling recently at levels around 30 to yield over 13 per cent, it is only too obvious that the market regards the company's ability to maintain dividends at the rate of $1 quarterly with considerable skepticism. The basis for such skepticism derives principally from the elimination of former markets of Latin-American copper producers. The collapse of France removed one of the most important outlets, and as a consequence South American producers have relied almost entirely upon shipments to Japan in recent months. As one of the largest, as well as one of the lowest cost producers, Cerro de Pasco has undoubtedly felt keenly the adverse developments of the past year. In the first six months of the current year the company reported earnings of $1,582,000, the equivalent of $1.41 per share on the common stock, after depreciation, depletion and income taxes. This compares with $766,000 or 68 cents a share in the corresponding period of 1939. For the twelve months to June 30, last, earnings were equivalent to $3 a share. It is unlikely, however, that the same rate of earnings shown in the first six months was maintained in the last half year. Hopes for betterment in the company's outlook depend, at the present time, almost entirely upon the possibility that the United States may effect a reduction in the present four-cent tariff on foreign copper, in order to assure adequate supplies in furtherance of the national defense program. Recently it was announced that the Government would acquire 100,000 tons of South American copper for stock pile purposes. Cerro de Pasco, however, did not participate in the order and the situation, as a whole, would appear to involve too many contingencies to warrant classification of the shares other than a speculative vehicle of the more radical type. Recent price 30; 1940 high 41½, low 22½.

Despite the fact that the common stock of **Sutherland Paper Co.** is selling only slightly above its low for 1940, there is nothing apparent in the company's near-term outlook likely to disrupt either the recent favorable trend of earnings or jeopardize the present $1.20 dividend. The company is the foremost manufacturer of paraffined cartons for practically all types of dairy and other food products. In addition, it produces folding cartons for miscellaneous packaging and display purposes, paper plates and cups, paper cans, and numerous related lines. For the first nine months of 1940, the company reported net earnings of $655,784, after depreciation and allowing for Federal income taxes at the increased rates, equal to $2.28 a share on 287,000 shares of common stock, comparing with $530,093, or $1.84 a share, in the first nine months of 1939. Earnings for the twelve months to September 30, last, were equivalent to $2.96 a share, as against $2.12 a share in the corresponding period of 1939. Early in 1940 the company planned to undertake the financing of larger inventories through the sale of 43,050 shares of additional common stock. The plan was subsequently abandoned in favor of an issue of $1,000,000 debentures maturing serially over the next ten years at an average interest cost of 2.77 per cent. Although pulp prices have risen appreciably over the past year, the company apparently has experienced no difficulty in adjusting the prices of its finished products, and it is understood that adequate supplies of pulp are assured well into 1941. Based on existing rates, the company's tax liability is not likely to prove an onerous one. In the circumstances, it can probably be safely assumed that current quotations for the shares reflect nothing more serious than the relative absence of dynamic aspects in the company's industrial background. Where income is emphasized, the shares provide a generous yield and might be held on that basis. Recent quotation 21; 1940 high 35⅜, low 20.

There is an excellent chance that net sales and earnings of **May Department Stores** this year may equal, if not exceed, those for 1937, which was the company's best year since 1932 in point of sales and the second best in point of earnings. Net sales in the first six months of the current year totaled $49,500,000, against $45,600,000 in the same period a year ago. Normally the last six months of the year provide a substantially larger volume than the first half. This year sales in the last six months will be stimulated by substantially increased employment and pay-rolls. In this connection, May Department Stores is particularly well situated, in view of the fact that the six large department store units which comprise the system are located in such industrial areas as Baltimore, Cleveland, Denver, Los Angeles, Akron and

St. Louis. The impetus given to industrial production in these areas by defense orders should be noticeably reflected in department store sales. Earnings available for the 1,230,396 shares of capital stock for the six months ended July 31, last, totaled $1,472,628 or the equivalent of $1.20 a share. In the same period of 1939 net amounted to $1,081,527 or 88 cents per share. On the basis of this showing, and even making allowance for increased taxes, earnings of $3.58 a share in 1939 should be topped without difficulty and may approach $4. Last September the company placed an issue of $5,000,000 1¾ per cent notes, due 1941 to 1948, the proceeds of which were used to discharge an outstanding bank loan of $2,000,000 and increase working capital. In all probability increased sales have necessitated the accumulation of larger inventories. Finances are characteristically strong. Affording a yield of about 6 per cent, on the present $3 dividend, the shares qualify as a suitable medium for income although possibilities for price appreciation in the present



Waxing paper pails at Sutherland Paper.

setting do not appear to offer any particular inducement from that standpoint. Recent quotation 50; 1940 high 53½, low 36⅜.

Tangible evidence of the current improvement in earnings of **Inspiration Copper** is afforded by the recent action of the company in authorizing a year-end dividend of 50 cents, the first payment in more than ten years. For the nine months period ended September 30, last, the company reported net income of $1,363,400 after interest, depreciation and taxes, but before depletion, equal to $1.15 a share on 1,181,967 shares of capital stock. In the same period a year ago, net of $261,772 was equivalent to only 22 cents. At the present time, however, the company's background indicates something of an industrial paradox. In recent months, domestic sales of copper have attained new high levels, accompanied by marked strengthening in the statistical position of the industry. Moreover, and unless there is a sudden termination of the war, domestic requirements in 1941 may actually tax productive capacity. Yet withal prices have registered only a slight advance. In the first nine months the price averaged 11.13 cents per pound compared with 10.54 cents per share in the same period a year ago. Chief among the factors restricting prices has been the expressed determination of the Administration to make every effort to forestall a runaway market in copper prices. The elimination of important foreign markets and resulting restriction of export demand have also exerted a restraining influence on prices. Any threat of a shortage in domestic copper supplies, as well as any attempt on the part of producers substantially to increase prices above prevailing levels, would doubtless be followed immediately by definite steps on the part of the Administration. Such steps might include a reduction in the tariff and the purchase of additional reserve supplies from South American producers. In the circumstances, it is difficult to conclude other than that the copper industry faces a period of well sustained demand while earnings of leading producers are likely to be good rather than spectacular. With production costs somewhat above the average, Inspiration would require somewhat higher copper prices to show really substantial earnings. Ore reserves are adequate and productive capacity is large in relation to capitalization. At recent levels, the shares appear reasonably priced but must be rated as involving something more than average speculative risk in view of the numerous uncertainties in the general copper prospect. Recent price 12½; 1940 high 15⅞, low 7½.

The current year promises to be the most profitable one for **Acme Steel** since 1929. If it isn't, it will doubtless be because taxes took a heavier toll of earnings than now appears indicated. In the September quarter, the company reported earnings of $602,688, or the equivalent of $1.84 a share on 328,108 shares of capital stock. In the same period a year ago, profits were equal to $1.35 a share. For the twelve months to September 30, last, net of $2,520,598 was equal to $7.68 a share, comparing with $1,245,551 or $3.80 a share in the same period a year ago. On the basis of foregoing results, it appears more than likely that per-share earnings for all of 1940 will approximate at least $7. Among steel companies, Acme's record is unusual. Dividends have been paid continuously since 1901 and even in the worst year of the depression, 1932, operations were profitable and a dividend of $1.20 a share was paid. The company's record, in a large measure, reflects concentration on the production of hot and cold rolled strip steel and fabricated specialties. Of the company's strip steel output, the automobile industry consumes about 50 per cent. The company purchases steel in semi-finished form and fabricates it. Development of numerous specialty lines, affording wide profit margins, coupled with a modest capitalization, has under favorable conditions produced substantial per-share earnings. During the past year the company has undertaken an expansion program involving the outlay of $1,500,000 the results from which are likely to be reflected in an improved competitive (*Please turn to page 352*)

For Profit and Income

It's Better Than You Think

The Federal Reserve Board has revised its figure for November industrial production from 131, which was a record, to 132. The question is asked why it is that revisions are always upward when business is on the upgrade and downward when things are going from bad to worse. One answer is that the human mind refuses to allow sufficiently for a trend. Reports from all quarters are prone to be governed by what has recently happened rather than what is now happening. Any summary of conditions as of a given date tends to be static, while the trend continues relentlessly.

Incidentally, seasonal adjustments as well as the impact of defense on peacetime industries will affect the Reserve Board figures soon. If they indicate any substantial declines in total production they should be interpreted freely. Meanwhile, a slight further rise is predicted.

British Government as Stockholder

Among the 59 stocks and seven bonds taken over by the British government in its third step of the kind are the following:

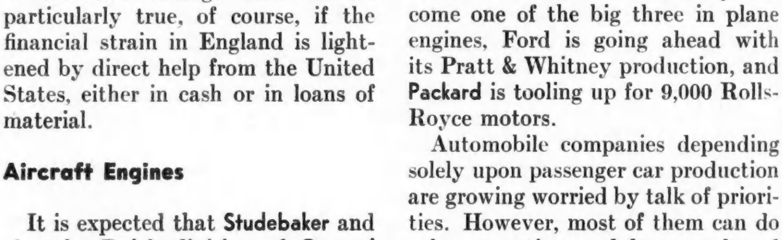
American Gas & Electric, American Locomotive pfd., American Rolling Mill, Chase National Bank, Crown Cork & Seal, Detroit Edison, Eastman Kodak, General Motors, Inland Steel, Liggett & Myers B, R. H. Macy, Marshall Field, National Dairy Products, Niles-Bement-Pond, Owens-Illinois Glass, Pennsylvania Railroad, Procter & Gamble, Sears Roebuck, Socony Vacuum, Southern California Edison, Timken Detroit Axle, and Woolworth. (Through the American Woolworth's holdings of the English company, the British government now holds a stake in the stores dealing with its own citizens.)

Judging from experience with other securities taken over for the purpose of liquidation, the additions to the list should not run into any concentrated selling. This will be particularly true, of course, if the financial strain in England is lightened by direct help from the United States, either in cash or in loans of material.

Aircraft Engines

It is expected that **Studebaker** and also the Buick division of **General Motors** will soon be added to the list of companies turning out aircraft engines. Mr. Knudsen of the N D A C has told the public that Studebaker would soon be busy on this work, and predictions are for a nearby announcement of licensing by Wright Aeronautical. The Buick division will probably work on Pratt & Whitney power plants. General Motors' Allison division has definitely become one of the big three in plane engines, Ford is going ahead with its Pratt & Whitney production, and **Packard** is tooling up for 9,000 Rolls-Royce motors.

Automobile companies depending solely upon passenger car production are growing worried by talk of priorities. However, most of them can do sub-contracting on defense work and thus keep busy if steel is rationed.



Triangle Photo

Aircraft output disappoints for two reasons: hopes were too high and the machine tool and skilled labor bottlenecks have not yet been cracked.

Leaders and Laggards in the 1940 Market

Issues Near High of Year

Stock	1940 Range To Date High	Low	Price 12/30/39	Recent Price	Net Gain
Amer. Locomotive pfd	89¾	38	55½	88	32½
Foster Wheeler pfd	118	61	71½	118	46½
Island Creek Coal	30½	20⅛	25¼	30	4¾
New York Shipbuilding	28¼	13¼	13	27	14
Jones & Laughlin Steel pfd	109½	48½	65	107	42
Int. Agric. Chem. pfd.	44	18⅛	36	43	7
Paramount	10⅞	4¼	7⅝	10⅝	3
Todd Shipyards	88½	55	65½	87	21½
Nat. Biscuit pfd.	176	155	*165	176	11
Nat. Lead pfd. B	153¾	132	144	153	9
Radio-Keith-Orpheum	3⅝	2⅛	1¼	3½	2¼
Starrett, L. S.	38¼	23	33½	37	3½
Standard Brands pfd.	113	98	105	112	7
Tide Water Assoc. Oil pfd.	99¾	81	90	99	9
Bath Iron Works	22⅞	9½	12	22	10
Timken Detroit Axle	30	18	23⅛	29⅛	6
Spicer Manufacturing	38¾	19	33½	36	2½

Issues Near Low of Year

Stock	1940 Range To Date High	Low	Price 12/30/39	Recent Price	Net Decline
American Can	116½	86⅛	113¾	86½	27¼
American Tobacco B	91¾	68¾	86¾	69	17¾
Abbott Laboratories	70¼	49¼	68¼	49¼	19
Bangor & Aroostook pfd.	52½	25⅜	51¼	26	25¼
Burroughs Adding Mach	12½	7½	11¾	7½	4¼
National Biscuit	24½	16½	22⅝	16½	6⅛
Pillsbury Flour	28⅞	22	26⅜	22	4⅜
Reynolds Tobacco B	44	30⅞	39½	31	8½
United Gas Improvement	15	9½	14½	9½	5
United Corp	2⅞	1¼	2⅜	1¼	1⅛
Snider Packing	24¾	14¾	20¼	15	5¼
Technicolor	16⅜	8½	12⅞	8½	4⅜
General Foods	49⅜	33¾	48	36	12
Corn Products	65⅛	40¼	64¾	42¼	22½
Monsanto Chemical	119	79	109¼	81	28¼

Baldwin Securities

The opportunities for speculation in the **Baldwin Locomotive** setup lie most prominently in the common stock and the convertible bonds. Since the company has been one of the outstanding beneficiaries of the defense program and has been registering a comeback with its new business, both have attracted their share of attention. But the preferred stock which pays $2.10 a year in dividends and is given a par value of 30 has been quietly sticking near its high for the year a few points above the par value. This stock has been used to pay bond interest and is outstanding in the amount of 77,645 shares. The call price is $40 a share and dividend requirements modest.

The option to pay bond interest in preferred stock has now expired, so the issue is limited to its present size. Buyers evidently consider the 6 per cent yield on current price attractive in view of the trend in Baldwin affairs and the small size of the issue.

Looking at the Groups

Steels—Question of prices paramount; scrap and iron ore as well as other costs need a steady hand, which Leon Henderson is undertaking to supply. Capacity operations assured.

Motors—Not much market interest, or at least no decided consensus on nearby trend. Stocks on hand steadily growing with December expected to show another substantial increase. Purpose—to insure supply in early 1941 contingencies. Consumers suspected of playing the same game, buying ahead to protect future wants.

Coppers — Government purchases from Latin America create new distinction between domestic producers and those having both domestic and foreign mines. With the price held down, historic effects of booming business on copper miners may be distorted somewhat, although volume is raising profits as usual. Market is uncertain.

Rails—A disappointment in last attempted rally. Taxes and maintenance up, gross revenues not yet fully reflecting defense production.

Machine Tools—Phenomenal increase in output to be followed by further gains. Percentage of earnings increase not expected to follow production, but higher profits are due.

Movies—Bull market on belief that lost foreign business has not licked industry.

Utilities—Look cheap to competent observers on basis of yields or intrinsic values. The market doesn't yet agree. **Federal Water Service A** is selling at less than half its earnings rate. But some operating company preferreds are going ahead strongly.

Oils—Lifting of pressure noted. Domestic consumption up 8 per cent, total up 6 per cent, after allowing for loss of foreign business. But many have assets as well as earnings in jeopardy abroad.

Stores — Volume excellent. Taxes heavy. Profits—spotty.

Hard Bargainer

The chance that future English war needs will be supplied by the United States Government, which will buy direct from American makers according to requests from Britain, is not bullish on profits. In the case of certain aircraft makers, the distinction in earnings has been apparent for years between Army and Navy orders and those going abroad. In fact, customers like Russia made the books look better than Uncle Sam. Older industries have frequently been accused of offering more favorable terms abroad than at home in order to get rid of excess production, but the arms makers in general have pursued the opposite policy.

If all buying is to be done by Washington, some profit margins in the defense industries are going to suffer. Some, of course, are already doing so, even while volume balloons and covers up the trend.

Earnings Doubled

In the process of changing its fiscal year to end on September 30, **Bendix Aviation** reports for the nine months to that date net profits of $6,474,754 as compared with $3,092,848 in the same part of 1939. These earnings were equivalent to $3.09 and $1.47 a share, respectively, and were after

(Please turn to page 351)

Allegheny Ludlum's Alloy Steels in Sharply Rising Demand

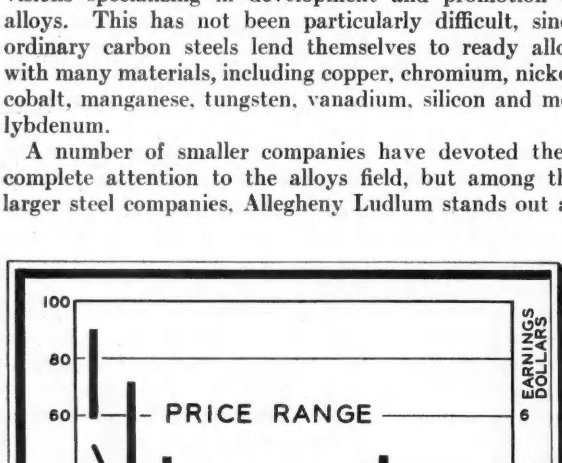
Profits Relatively Good Despite Much Higher Taxes

BY J. C. CLIFFORD

Of key importance in the national defense program are the alloy steels, which in themselves represent an industry only in its infancy. As machine tools, ships, airplanes and armaments roll out of the factories in ever-increasing numbers in response to ever-increasing demand, the order books of the alloy steel departments of the country's steel makers bulge to the virtual limit.

The beneficiaries of this fast-developing industry within an industry? They are widespread in number. Practically all the steel companies have seen the handwriting on the industry's wall and have established divisions specializing in development and promotion of alloys. This has not been particularly difficult, since ordinary carbon steels lend themselves to ready alloy with many materials, including copper, chromium, nickel, cobalt, manganese, tungsten, vanadium, silicon and molybdenum.

A number of smaller companies have devoted their complete attention to the alloys field, but among the larger steel companies, Allegheny Ludlum stands out as a leading beneficiary from the alloy boom. The company's annual ingot capacity runs about 605,360 net tons, of which over 157,000 net tons represent electric furnace and the remainder open hearth. In its seven plants, about 45% of the total melting capacity is used in making such high grade steels as stainless, silicon, tool, valve, nitrated and others.



Such melting capacity is on the rise, not only because of demands from the prospering automotive industry, which long has represented the most important customer for this kind of steel, but also because of pressing needs for armament production. Even the food processing, radio and household utensil industries—hardly to be considered as war beneficiaries—are stepping up their demands, partly for fear of being left in the cold as priorities favor the defense lines.

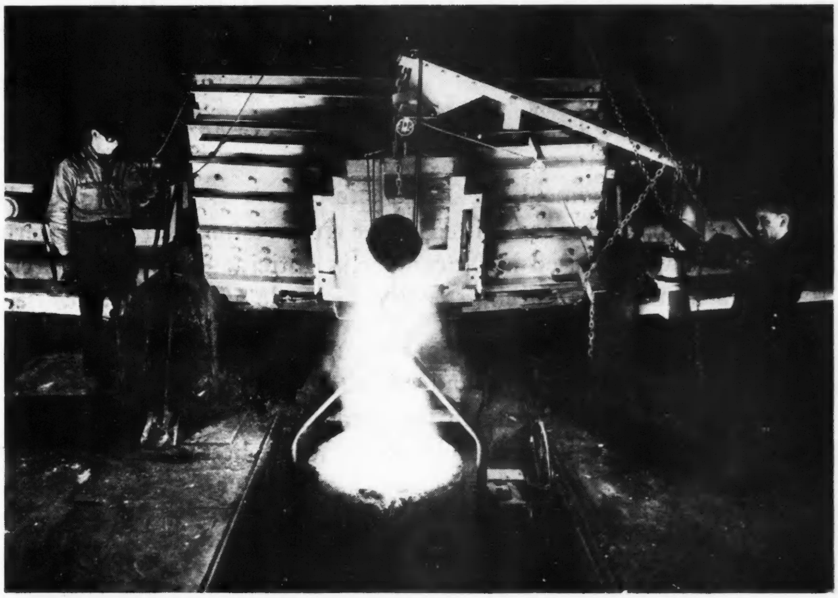
Research activities of Allegheny Ludlum Steel have been the means of the company's maintaining an advanced position in the field of special alloys. Last year a new tool steel of tungsten molybdenum type, known as D. B. L. steel was placed on the market. This steel was quickly accepted as a product equal in all respects to more costly high speed steels. A new finishing process for Allegheny Metal, known as Anodic Lustre, likewise is a fairly recent addition to the company's achievements. This produces a more brilliant finish than can be obtained by mechanical means and may be used on parts virtually impossible to finish by grinding and polishing.

Among other advances experienced by the company are the cold reduction of magnetic steels through the medium of special equipment installed for this purpose, and the production of a superior type of alloy casting at the foundry of the corporation located at Buffalo (Tonawanda), New York. Promising results, too, have been obtained in high cobalt tool steel development, while additional research on electrical steels is currently in progress.

Perhaps the outstanding development of recent years in the field of special steels is the "Pluramelt" steel-making process. "Pluramelt" is an innovation in the

steel world, and is produced by a new technique inter-melting two or more metals of different composition, so that they form a continuous inseparable structure. The analyses of materials that may be combined in the "Pluramelt" process and the uses to which "Pluramelt" Steel may be put in the future are believed to be exceptionally extensive.

From the cost standpoint, there is a high advantage, since the inter-melting of stainless steel with low-cost carbon steel may be brought about to form a plate or a sheet with a stainless surface. Beyond this, however, are the fields where requirements call for such characteristics in one piece of metal as great resistance to shock in one area, coupled with extreme hardness and resistance to wear in another. By combining alloy steels which separately have one of these characteristics, by means of the "Pluramelt" process, these requirements may now be satisfied. Thus, there unfolds in this development a new field in metallurgy.



Courtesy Allegheny Ludlum Steel Co.

The process is not a recent discovery. About three years ago the M. W. Kellogg Co. of Jersey City, started to make pressure vessels from a then-unnamed stainless steel-surfaced carbon steel. Allegheny Ludlum this year announced that it had secured exclusive rights under various patents controlled by the M. W. Kellogg Co. and that, with a new plant at Brackenridge, Pa., with equipment designed to manufacture "Pluramelt" steel, the company was ready to furnish "Pluramelt" steel in commercial quantities.

Activity Reaches New Record

So much for "Pluramelt" steels. Though they are by no means the major factor in earnings, their future possibilities appear promising, indeed. For the present, however, the unprecedented backlog of orders and the recent record-breaking activity in the company's mills is accounted for principally by others of the company's previously outlined activities. While the specialty lines have been exceptionally active, so, too, have the other departments under the general stimulus of an almost feverish stocking-up of the metal through a broad cross section of industry.

The threat of priority establishments under the national defense program points to the likelihood of the alloy steels pushing ahead—for use in machine tools, aircraft, specialty demand for munitions. A rough idea of the distribution of demand may be obtained from the accompanying tabulation of the estimated distribution of alloy steel for the industry as a whole. The current year's distribution would run somewhat lower for the automotive industry and considerably higher for the machine tool, construction and shipbuilding industries, to mention a few.

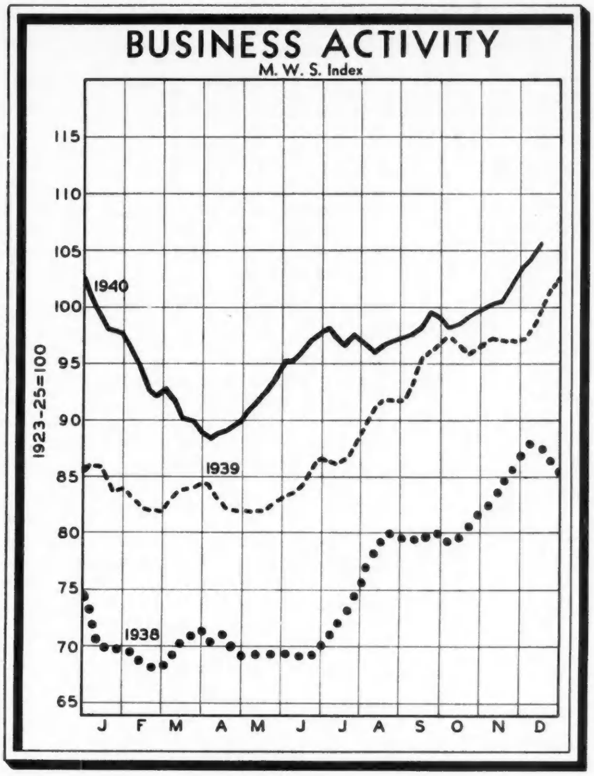
ALLOY STEEL DISTRIBUTION

	Automotive	Machine Tool	Railroads	Shipbldg.	Exports	Construction	Agric.	Oil Indus.	Misc.
1939	54.7%	7.3%	3.9%	3.6%	3.2%	1.7%	1.7%	1.1%	22.8%
1938	54.0	6.9	2.4	1.4	5.4	1.7	1.8	1.8	24.6
1937	59.7	6.8	7.0	0.4	1.7	0.7	1.9	0.9	20.9
1932	77.6	3.5	1.9	0.4	0.4	0.7	1.7	0.8	13.0

Expansion naturally is in the cards; as matters now stand, with the surface of defense program needs hardly scratched, the steel industry needs greater capacity particularly in the alloy steel lines. Contemplated expansion in the electric furnace division of the steel industry will give this division a capacity of about 2,700,000 tons annually, compared with 1,880,000 tons at the end of 1939. What form this will take in the case of Allegheny Ludlum can only be conjectured; that expansion of facilities in response to insistent demand is likely to take place this year appears a foregone conclusion.

Meanwhile, the company's status with regard to profit margins is an important consideration, what with the rising cost of scrap, coal, coke, limestone and other products, as well as rising labor costs necessitated by the likely overtime work above the new 40-hour limit. And, then, of course, there are tax matters to justify the expectation of lower profit margins. Not only is it possible that normal taxes may be increased (as suggested by Senator George, for one, to 30% from the present 24%), but there is talk of the excess profits option being confined to invested capital return. The latter development would make little difference to Allegheny Ludlum, since its estimated excess profits tax credit is larger on an invested capital base ($1.60 a share) than on the average earnings 1936-39 base ($1.31 a share); nevertheless, the normal tax increase would of course represent additional drawbacks to reporting of substantial income.

Besides approximately 33,400 shares of 7% cum., $100 par preferred stock, capitalization includes approximately 1,254,824 shares of no (*Please turn to page 348*)



CONCLUSIONS

INDUSTRY—Business reaches 1929 peak; but not on a per capita basis.

TRADE—Retail sales well ahead of last year.

COMMODITIES—Government taking more active role in commodity markets. Price range narrow.

MONEY AND CREDIT—Sharp drop in excess reserves brings total to lowest figure since last August. Earnings assets of New York banks continue to set new high records.

The Business Analyst

Under leadership of better than normal seasonal gains in carloadings, steel output and cotton cloth production during the past fortnight, **Business Activity,** after a lapse of more than eleven years, has again risen to the 1929 peak; though still short by 8% of duplicating—the historic maximum of that year on a per capita basis. Present indications are that per capita business activity this year (with December estimated at 105) will be around 96.4% of the 1923-5 average, compared with 89 for 1939—a rise of 8.3% above last year. Most of the experts look for an increase of at least 10% next year, which would bring the average up to 106, thereby agreeing fairly well with the convenient rule-of-thumb that business during any given year usually averages about the same as for the preceding December. This would be slightly better than the per capita record of 105.4 established in 1929. It goes without saying that all such predictions presuppose that the war will continue and that the Federal Reserve Board will not raise reserve requirements precipitously.

* * *

An expansion in business activity of the proportions now indicated points to large business profits, despite prospects for heavier taxes. Such has been the experience in England where ex-

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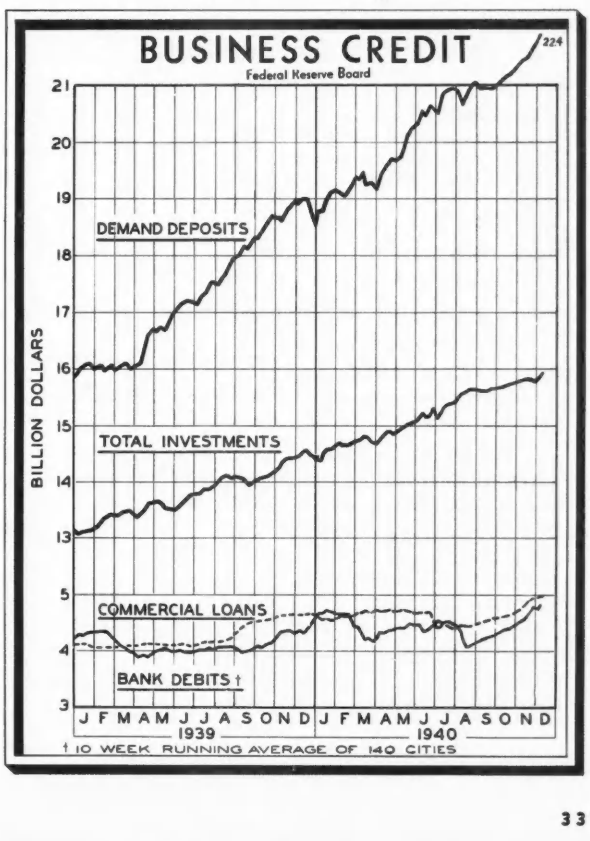


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Nov.	132(pl)	129r	124
INDEX OF PRODUCTION AND TRADE (b)	Oct.	95	94	91
Production	Oct.	98	95	91
Durable Goods	Oct.	96	91	80r
Non-durable Goods	Oct.	98	97	97
Primary Distribution	Oct.	87	87r	87r
Distribution to Consumers	Oct.	96	96r	94r
Miscellaneous Services	Oct.	93	93r	86r
WHOLESALE PRICES (h)	Nov.	79.3	78.6r	79.2
INVENTORIES (n. i. c. b.)				
Inventories	Oct.	122.6	122.4	103.4
New Orders	Oct.	197	176	141
Shipments	Oct.	147	136	125
COST OF LIVING (d)				
All items	Nov.	85.5	85.5	85.7
Food	Nov.	77.2	77.4	79.6
Housing	Nov.	87.5	87.4	86.7
Clothing	Nov.	73.1	73.1	72.9
Fuel and Light	Nov.	86.3	85.9	85.6
Sundries	Nov.	98.1	98.1r	96.8
Purchasing value of dollar	Nov.	117.0	117.0	116.7
NATIONAL INCOME (cm)†	1st 10 mos.	60,652	53,981	57,352
CASH FARM INCOME†				
Farm Marketing	Oct.	$1,049	$854r	960r
Including Gov't Payments	Oct.	1,125	908r	1,042r
Total, First 10 Months	Oct.	7,314	......	6,833
Prices Received by Farmers (ee)	Oct. 31	99	97	97
Prices Paid by Farmers (ee)	Oct.	122	122	122
Ratio: Prices Received to Prices Paid (ee)	Oct.	81	80.	80
FACTORY EMPLOYMENT (f)				
Durable Goods	Oct.	109.0	104.8	96.1
Non-durable goods	Oct.	109.9	109.5	110.8
FACTORY PAYROLLS (f)	Oct.	113.6	109.4	101.6
RETAIL TRADE				
Department Store Sales (f)	Nov.	101	94r	93
Chain Store Sales (g)	Nov.	124	120	117
Variety Store Sales (g)	Nov.	132	123	122
Rural Retail Sales (j)	Oct.	122.0	127.8	123.4
Retail Prices (s) as of	Nov.	95.0	96.2	96.7
FOREIGN TRADE				
Merchandise Exports†	Oct.	$343	$295	$332
Cumulative year's total† to	Oct.	3,374	.....	2,517
Merchandise Imports†	Oct.	207	195	215
Cumulative year's total† to	Oct.	2,149	......	1,836
RAILROAD EARNINGS				
Total Operating Revenues★	1st 10 mos.	$3,539,445	......	$3,281,797
Total Operating Expenditures★	1st 10 mos.	2,563,885	......	2,413,033
Taxes★	1st 10 mos.	340,660	......	300,952
Net Rwy. Operating Income★	1st 10 mos.	527,102	......	457,433
Operating Ratio %	1st 10 mos.	72.44	......	73.53
Rate of Return %	1st 10 mos.	2.38	......	2.07
BUILDING Contract Awards (k)	Oct.	$380	$3480	$261
F. H. A. Mortgages				
Selected for Appraisal†	Oct.	116	116	99
Accepted for Insurance†	Oct.	92	85	74
Premium Paying†	Oct.	80	68	61
Building Permits (c)				
214 Cities†	Nov.	$82	$119	$85
New York City†	Nov.	20	18	16
Total, U. S.†	Nov.	103	137	101
Engineering Contracts (En)†	Nov.	$383	$703	$302

PRESENT POSITION AND OUTLOOK

(Continued from page 337)

cess profit taxes are 100%, a far steeper rate than American business is likely to suffer unless this country enters the war. Except for scattered instances of profiteering, there is little prospect of an inflationary advance in the general **price level.** Unemployment and Western Hemphisphere supplies of essential commodities are too large to permit serious inflation. At present writing, in fact, **raw material prices** average 3% lower than a year ago, while **wholesale prices** are up only 1% and **retail prices** 2%. The great menace to the price structure at present is not inflation; but the danger that fear of inflation may lead to official curbs resulting in a new outbreak of **deflation.**

* * *

Non-agricultural **employment** rose 1,500,000 between October, 1939, and October this year, reaching approximately 37,000,000. **Factory employment** in October was 6.1 larger than a year earlier, with **payrolls** up 12.4% Individual **incomes** received during October totaled $6,671 millions, an increase of 6.6% over the like month of 1939. Total **payrolls** came to $4,154 millions—up 6%. Dividend and interest payments amounted to $845 millions, a 9% increase. Dividends declared in November, however, were only 4.2% above last year, against an eleven-month's increase of 11%. This reflects a disposirion to conserve surpluses for tax saving purposes and as protection against war's aftermath.

* * *

Chain store sales during November were 12.6% ahead of last year, with **mail order** houses reporting an average increase of 11.2% and **variety store sales** up 5.7%. Store **inventories** in the New York area on Oct. 1 were 4.4% larger than a year ago. **Department store sales** in the week ended Dec. 7 were 5% above last year. compared with a four-weeks' rise of 7%. Industrial buyers, to anticipate establishment of priorities later on, are at present stocking on the basis of maintaining at least a six-months' supply, against normal standard of 90 days.

* * *

Helped by shipments of heavy freight stemming from the expanding defense program, **carloadings** have risen contraseasonally since our last issue to a level 9% above last year. Operating revenues of Class I carriers during November were 1.3% above the like month of 1939.

* * *

Despite a rise over last year of 7% in the cost of building materials, construction activities are expanding at the fastest pace in years. Total value of **construction** for the current year is estimated by Secretary of Commerce, Jesse H. Jones, at $9,925,000—2.5% above 1939, and the largest volume in a decade. A 14% increase in private building was mainly responsible for this year's gain. Under domination of defense building, 1941 is expected to make an even better showing. **Engineering construction** awards in in the week ended Dec. 12 were 103% over the like 1939 period, against a 30% rise for the year to date.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Nov.	6,283	6,462	6,148
Pig Iron Production in tons★	Nov.	4,403	4,447	4,167
Shipments, U. S. Steel in tons★	Nov.	1,425	1,572	1,406
AUTOMOBILES				
Production				
Factory Sales	Oct.	514,374	284,583	324,689
Total 1st 10 Months	Oct. 31	3,674,434	......	2,895,059
Registrations				
Passenger Cars, U. S. (p)	1st 10 mos.	2,779,586	......	2,175,262
Trucks, U. S. (p)	1st 10 mos.	500,000 est.	....	408,002
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	367.7	398.1	367.6
Shipments, U. S. & Canada★ (tons)	Nov.	......	376.7	369.3
Mill Stocks, U. S. & Canada★ (tons)	Nov.	192.6	199.0r	206.9
LIQUOR (Whisky)				
Production, Gals.★	Oct.	10,303	6,761	7,084
Withdrawn, Gals.★	Oct.	8,982	6,354	8,534
Stocks, Gals.★	Oct.	476,298	476,980	469,190
GENERAL				
Paperboard, new orders (st)	Oct.	486,181	399,133	497,834
Machine Tool Operations	Nov.	95.4	96.8	91.2
Railway Equipment Orders (Ry)				
Locomotive	Nov.	40	30	41
Freight Cars	Nov.	9,026	11,786	17,698
Passenger Cars	Nov.	10	67	8
Cigarette Production†	Nov.	14,347	16,448	14,461
Bituminous Coal Production★ (tons)	Nov.	40,300	38,700	43,301
Portland Cement Shipments★ (bbls.)	Nov.	10,329	15,776	10,147
Commercial Failures (c)	Nov.	1,024	1,111	1,184

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** during November were contraseasonally 4% ahead of October, 30% above last year, and the largest for any month on record. Though part of the favorable showing in November is attributable to comparison with a period last year when Chrysler sales were curtailed by the company's labor strike, the fact remains that demand is surprisingly good for this time of year. Field stocks are 70% above last year.

* * *

Lumber orders booked during November were 34% ahead of the like period in 1939, compared with a cumulative gain of 10% for the year to date. Shipments thus far have been 7% above last year, compared with a rise of only 6% in production; resulting in an 8% decrease in stock. **Bituminous coal** production during November was 4% above October; but 7% below last year. November Anthracite output was 7% under last year.

* * *

November **shoe** production is estimated at 6.6% below last year, compared with an 11-months' decrease of 7%. **Machine tool** production is being speeded up beyond expectations, and it is now expected that output in January will reach a value of $50,000,000. This would be at an annual rate of $600,000,000, or 50% above this year's actual record.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Dec. 14	105.9	104.2	98.4
ELECTRIC POWER OUTPUT				
K.W.H.†	Dec. 14	2,862	2,838	2,604
TRANSPORTATION				
Carloadings, total	Dec. 14	736,332	738,513	681,166
Grain	Dec. 14	33,056	35	35,547
Coal	Dec. 14	149,668	148	134,585
Forest Products	Dec. 14	39,593	40	34,144
Manufacturing & Miscellaneous	Dec. 14	320,038	319	290,052
L. C. L. Mdse	Dec. 14	156,622	155	150,148
STEEL PRICES				
Pig Iron $ per ton (m)	Dec. 16	22.61	22.61	22.61
Scrap $ per ton (m)	Dec. 16	21.33	21.33	17.83
Finished c per lb. (m)	Dec. 16	2.261	2.261	2.261
STEEL OPERATIONS				
% of Capacity week ended (m)	Dec. 18	97	96.5	91.5
CAPITAL GOODS ACTIVITY (m) week ended	Dec. 14	126.2	124.4	105.6
PETROLEUM				
Average Daily Production bbls.★	Dec. 14	3,579	3,613	3,866
Crude Runs to Stills Avge. bbls.★	Dec. 14	3,495	3,460	3,414
Total Gasoline Stocks bbls.★	Dec. 14	75,234	74,986	74,185
Fuel Oil Stocks, bbls.★	Dec. 14	104,105	105,353	108,219
Crude—Mid-Cont. $ per bbl	Dec. 20	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Dec. 20	1.48	1.48	1.98
Gasoline—Refinery $ per gal	Dec. 20	.05½	.05½	.06⅞

PRESENT POSITION AND OUTLOOK

Electric power output has expanded to a new all-time high, both with and without adjustment for seasonal variation, and the margin of increase over last year has widened to 10%. The industry is now planning the biggest plant expansion in a decade; yet the Federal Power Commission reports that, while capacity will be adequate next year, there might be a shortage of 1,500,000 kilowatts by 1942 when production for defense reaches its peak. The Supreme Court has just ruled that Federal licenses must be obtained for the construction of hydro-electric plants. The SEC urges utility companies to reduce debt and employ common stock for future financing.

* * *

Present expansion programs, when completed will add about 2,200,000 tons to the **steel** industry's present capacity of 83,000,000. It is estimated that home defense plus export demand in 1942 will not exceed 18,500,000 tons. Total output of 80,000,000 tons is looked for next year. Fourth quarter's prices have been reaffirmed for the first quarter.

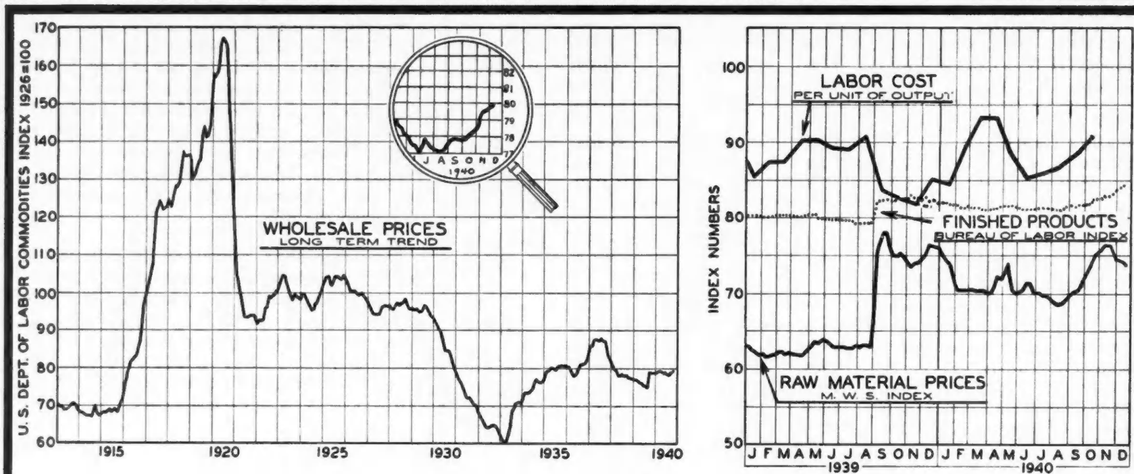
* * *

Total demand for **oil products** during first ten months has been at record levels, and 2¼% above last year, despite a 30% drop in exports. Domestic use rose 7%.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%— estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

With commodity prices continuing to fluctuate in a narrow and insignificant range, the chief feature has been various steps taken by the Government in the interests of the defense program and an unwarranted advance in raw material costs. The latest developments in this direction included conferences between the Defense Commission and steel company officials, announcement that arrangements had been made to acquire 100,000 tons of Latin American copper, and very evident efforts to fulfill shoe and leather requirements with the least possible effects upon the price structure. In the latter connection the Defense Commission announced that it would watch closely supply and demand conditions and would not hesitate to recommend appropriate action. The whole question of the Government's ability to prevent rising prices is still the subject of much discussion, with nothing definite resulting. With demand steadily increasing and with labor costs rising, implied threats of concrete action alone will not arrest higher prices.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Dec. 13	Dec. 20
28 Basic Commodities	124.2	105.6	117.3	117.4
Import Commodities	132.9	104.7	121.1	121.4
Domestic Commodities	118.7	105.5	114.9	114.8
Domestic Agricultural	123.8	111.4	121.5	122.0
Foodstuffs	120.0	100.5	111.5	111.8
Raw Industrial	128.4	101.3	121.7	121.6

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Dec. 21	10.15	10.17	11.01
May	Dec. 21	10.09	10.11	10.63
Spot	Dec. 21	10.36	10.37	11.35
(In bales 000's)				
Consumption, U. S.	Nov.	744	771	719
Exports, wk. end	Dec. 20	21	21	186
Total Exports, season Aug. 1 to	Dec. 20	516	491	2,813
Government Crop Est.	Dec. 1	12,686	12,847	11,817(ac)
Active Spindles (000's)	Nov.	22,686	22,457	22,785
WHEAT				
Price cents per bu. Chi. closing				
December	Dec. 21	89⅜	89	108¾
May	Dec. 21	84⅛	85¼	105¾
Exports bu. (000's) since July 1 to	Dec. 14	50,085	48,303	58,236
Exports bu. (000's) wk. end	Dec. 14	1,782	2,258	1,182
Visible Supply bu. (000's) as of	Dec. 14	151,585	152,708	122,481
Gov't Crop Est. bu. (000's)	Dec. 1	816,698	792,332	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
December	Dec. 21	60	59¼	55⅜
May	Dec. 21	60⅛	59¼	58⅜
Exports bu. (000's) since July 1 to	Dec. 14	20,448	20,448	9,024
Visible Supply bu. (000's) as of	Dec. 14	61,359	59,427	40,565
Gov't Crop Est. bu. (000's)	Dec. 1	2,449,523	2,433,523	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The Government's final estimate of the cotton was slightly below the November figure, but still a crop that is expected to be around two million bales over the needs of domestic consumption and export requirements. The consumption of 744,000 bales in November was the largest for that month. The latest report of the Commodity Credit Corporation placed the amount of cotton under loan at a little over two and one half million bales and indication that the crop year figure may reach the estimate of three to four million bales.

* * *

Wheat. A record carryover is probable for next July with the December first estimate of the crop by the Government of 816,698,000 bushels. Together with the carryover of last July of around 294,000 bushels this brings the season's supply to 1,101,000 bushels. The lack of speculative interest and the loan program will prevent the full effect of the statistics from being reflected in the wheat market immediately.

* * *

Corn. A definite ceiling was placed over the corn spot and futures market with announcement of the Government that country stored corn in bins would be offered for sale at a price of 65 cents a bushel.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Dec. 21	12.00	12.00	12.50
Export f. a. s. N. Y.	Dec. 21	10.50	10.25	12.45
Refined Prod., Domestic*	Nov.	96,283	83,076	NA
Refined Del., Domestic*	Nov.	102,483	103,771	......
Refined Stocks, Domestic*	Nov.	158,418	164,618	......
Copper Sales, Domestic*	Nov.	85,006	125,508	51,592
TIN				
Price cents per lb. N. Y.	Dec. 21	50.10	50.05	49.75
Tin Plate, price $ per box	Dec. 21	5.00	5.00	5.00
World Visible Supply† as of	Nov. 30	40,046	40,631	38,035
U. S. Deliveries†	Nov.	12,505	11,820	7,870
U. S. Visible Supply† as of	Nov. 30	26,998	28,851	21,058
LEAD				
Price cents per lb., N. Y.	Dec. 21	5.50-5.55	5.50-5.55	5.50
U. S. Production*	Nov.	57,926	56,600	48,467
U. S. Shipments*	Nov.	57,510	62,496	64,365
Stocks (tons) U. S., as of	Nov. 30	35,791	35,386	58,061
ZINC				
Price cents per lb., St. Louis	Dec. 21	7.25	7.25	6.00
U. S. Production*	Nov.	56,481	56,422	53,524
U. S. Shipments*	Nov.	61,145	64,787	64,407
Stocks U. S., as of*	Nov.	17,936	22,600	61,522
SILK				
Price $ per lb. Japan xx crack	Dec. 21	2.56	2.56	4.14½
Mill Dels. U. S. (bales)	Nov. 30	36,374	39,877	32,241
Visible Stocks N. Y. (bales) as of	Nov. 30	60,330	48,297	41,927
RAYON (yarn)				
Price cents per lb	Dec. 21	53	53	53
Consumption (a)	Nov.	35.0	36.9	33.3
Stocks as of (a)	Nov. 30	6.2	6.8	7.7
WOOL				
Price cents per lb. raw, fine, Boston	Dec. 21	1.08	1.08	1.08
Consumption, period ending (a)	Oct. 31	39,240	28,608	33,985
HIDES				
Price cents per lb. No. 1 Packer	Dec. 21	13.00	13.00	15.00
Visible Stocks (000's) as of	Oct. 31	13,125	12,740r	12,556r
No. of Mos. Supply as of	Oct. 31	7.2	7.5r	6.5r
Boot and Shoe Production, Prs.★	Oct.	36,566	34,992	37,273
RUBBER				
Price cents per lb	Dec. 21	20.75	21.00	20.75
Imports, U. S.†	Nov.	72,901	74,716r	42,770
Consumption, U. S.†	Nov.	54,652	56,477	55,677
Stocks U. S. as of	Nov.	276,943	259,140	105,205
Tire Production (000's)	Oct.	5,082	4,417	5,392
Tire Shipments (000's)	Oct.	5,561	4,512	5,162
Tire Inventory (000's) as of	Oct. 31	9,448	9,886	8,382
COCOA				
Price cents per lb. Jan.	Dec. 21	5.18	......	5.63
Arrivals (bags 000's)	Nov.	369	402	434
Warehouse Stocks (bags 000's)	Dec. 20	1,308	1,328	1,119
COFFEE				
Price cents per lb. (c)	Dec. 21	7¼-7½	7½	7⅛
Imports, season to (bags 000's)	Nov. 30	5,601	4,215	5,652
U. S. Visible Supply (bags 000's)	Dec. 1	1,820	1,694	1,825
SUGAR				
Price cents per lb.				
Raw	Dec. 21	2.93	2.95	2.95
Refined (Immediate Shipment)	.....	4.35	4.35	4.70
U. S. Deliveries (000's)*	1st 11 mos.	6,245	......	6,210
U. S. Stocks (000's)* as of (rr)	Oct. 31	675	810	696

PRESENT POSITION AND OUTLOOK

Copper. At the close of last week Jesse Jones, Federal Loan Administrator announced that the Metals Reserve Company had contracted to buy 100,000 tons of copper from latin-American countries, with deliveries to begin in March and to be spread out thereafter. The metal is to be purchased on the basis of 10 cents f. a. s. New York. It is believed that the copper is to be held in reserve to be made available to the industry if and when needed.

* * *

Tin. No word has come out of London as to what transpired at the meeting of the International Tin Committee last week. Aside from Navy business there has been little going on in the local market. Tin plate operations continue at around 50 per cent in Pittsburgh.

* * *

Lead. The lead situation continues very quiet and featureless with consumers absent from the market. November statistics reveal that refined lead stocks about unchanged, shipments down 5,000 tons and production up 1,300 tons.

* * *

Zinc. A sensational report of the Commodity Exchange last Thursday revealed that a discrepency of 1,883 tons attributed to erroneous reports by licensed warehoused in the Port of New York was found and that zinc stocks in official warehouses are only 309 tons.

* * *

Silk. Raw silk arrivals into the United States during the first half of December dropped sharply to 16,891 bales as contrasted to the record level of 48,407 bales during the entire month of November. This is attributed to the quieter Pacific situation. During the month of November the Japanese Government purchased 17,800 bales in the open market in Japan bringing government stocks to 71,800 bales as of the end of November.

* * *

Wool. A record import of wool is indicated for this year by the preliminary figures for November and the first two weeks of December to the highest levels since the year 1923. The imports may reach as much as 200,000 pounds. According to the N. Y. W. T. E.'s trade review, most woolen mills have sold their production for the first quarter of 1941 while army contracts will supply them with a backlog for the second quarter and part of the third quarter.

* * *

Hides. The weekly survey of the Commodity Exchange comments that excess hides production over leather consumption since the start of the war has resulted in a net increase in total visible stocks of hides and leather in all hands from 12,758,000 equivalent hides on August 31, 1939, to 13,120,000 at the close of last October.

* * *

Rubber. Crude rubber consumption in the United States during November was the fifth largest monthly consumption on record as the previous month was the second largest.

* * *

Cocoa. In the past week cocoa prices advanced 13 to 16 points on the New York Cocoa Exchange when little resistance was met on the upside with trade buying and scattered Wall Street interest.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (rr)—Raw and refined. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Dec. 21	1¼%	1¼%	1¼%
Prime Commercial Paper	Dec. 21	⅝-1%	⅝-1%	⅝-1%
Call Money	Dec. 21	1%	1%	1%
Re-discount Rate, N. Y.	Dec. 21	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Dec. 14	3,182	3,145	3,057
Cumulative year's total to	Nov. 30	13,528	......	12,349
Bank Clearings, N. Y.	Dec. 14	3,606	3,290	3,957
Cumulative year's total to	Nov. 30	14,413	......	12,921
F. R. Member Banks				
Loans and Investments	Dec. 11	25,224	25,052	23,523
Commercial, Agr., Ind. Loans	Dec. 11	4,992	4,942	4,416
Brokers Loans	Dec. 11	529	452	818
Invest. in U. S. Govts.	Dec. 11	9,582	9,584	8,863
Invest. in Govt. Securities	Dec. 11	2,729	2,723	2,413
Other Securities	Dec. 11	3,614	3,584	3,376
Demand Deposits	Dec. 11	22,403	22,131	18,981
Time Deposits	Dec. 11	5,384	5,365	5,251
New York City Member Banks				
Total Loans and Invest	Dec. 18	10,262	10,036	9,156
Comm'l Ind. and Agr. Loans	Dec. 18	1,903	1,903	1,697
Brokers Loans	Dec. 18	400	380	666
Invest U. S. Govts.	Dec. 18	4,257	4,162	3,533
Invest. in Gov't Gtd. Securities	Dec. 18	1,566	1,558	1,224
Other Securities	Dec. 18	1.340	1,307	1,195
Demand Deposits	Dec. 18	10,314	10,356	8,378
Time Deposits	Dec. 18	720	712	651
Federal Reserve Banks				
Member Bank Reserve Balance	Dec. 18	13,804	14,152	11,378
Money in Circulation	Dec. 18	8,716	8,625	7,679
Gold Stock	Dec. 18	21,898	21,858	17,576
Treasury Currency	Dec. 18	3,081	3,077	2,959
Treasury Cash	Dec. 18	2,204	2,197	2,411
Excess Reserves	Dec. 18	6,400	6,790	4,900
NEW FINANCING (millions $)				
Corporate	Nov.	392.6	345.3	112.5
New Capital	Nov.	168.7	47.3	21.6
Refunding	Nov.	1.925	392.6	90.8

COMMENT

The latest Federal Reserve statistics revealed a decline of $390,000,000 in excess reserves of all member banks, dropping the total to $6,400,000,000, the lowest figure since last August. The principal drain on bank reserves was the $348,000,000 increase in the Treasury's deposits in regional banks. Other factors included a rise in currency circulation to $8,716,000,000, a new record high; an increase of $25,000,000 in non-member deposits and other Federal Reserve accounts; and a rise of $7,000,000 in Treasury cash.

* * *

Loans and investments of New York City banks increased $226,000,000 in the most recent week to a new high figure. Over the last twelve months New York banks have added $1,100,000,000 in earnings assets, a gain of about 12 per cent. Since the low point of 1938 loans and investments have increased approximately 40 per cent., while the gain since the start of the war in September, 1939, has totaled $1,883,000,000. In the same time the gain in loans amounted to $243,000,000; Holdings of Treasury bills rose $106,000,000; Treasury notes rose from $825,000,000 to $1,130,000,000; Treasury bonds were up from $2,136,000,000 to $2,827,000,000; government guaranteed issues increased $419,000,000, while holdings of other securities gained $119,000,000. In the most recent week, in reflection of the sale of new Treasury notes, total holdings of this class of investment rose $163,000,000, while investments of all types registered a net gain of $196,000,000.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No of Issues (1925 Close—100)	1940 Indexes High	Low	Dec. 14	Dec. 21
309 COMBINED AVERAGE	67.1	45.3	55.0	52.8
5 Agricultural Implements	103.6	63.6	87.9	82.3
6 Amusements	28.8	15.8	24.2	22.9
15 Automobile Accessories	98.8	65.5	95.1	90.4
12 Automobiles	12.0	7.7	9.8	9.7
12 Aviation (1927 Cl.—100)	235.5	151.8	182.9	176.7
3 Baking (1926 Cl.—100)	12.3	7.9	8.8	8.7
3 Business Machines	117.3	75.1	90.9	87.9
9 Chemicals	174.1	120.5	155.8	149.1
20 Construction	33.6	19.4	26.3	24.9
5 Containers	251.1	168.6	192.0	189.4
9 Copper & Brass	103.6	64.4	87.0	85.1
2 Dairy Products	33.6	24.7	25.8	26.4
7 Department Stores	20.9	13.8	19.2	18.0
6 Drugs & Toilet Articles	58.4	35.0	37.4	35.0L
2 Finance Companies	272.1	164.3	178.1	170.1
7 Food Brands	117.8	77.8	82.7	77.8x
3 Food Stores	56.1	37.7	43.0	42.6
4 Furniture & Floor Covering	56.9	32.6	39.8	39.6
3 Gold Mining	968.7	551.4	700.0	680.7
6 Investment Trusts	24.5	15.5	17.1	16.9
3 Liquor (1932 Cl.—100)	164.2	109.1	148.3	142.3
9 Machinery	116.2	81.0	108.3	105.8

(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	Dec. 14	Dec. 21
100 HIGH PRICED STOCKS	68.30	49.40	58.88	57.21
100 LOW PRICED STOCKS	58.80	36.43	45.56	44.64
2 Mail Order	94.9	63.8	73.9	72.7
4 Meat Packing	70.0	41.5	45.9	44.6
13 Metals, non-Ferrous	159.0	106.7	137.3	129.9
3 Paper	19.4	11.8	14.6	14.0
22 Petroleum	86.7	63.1	71.3	69.0
18 Public Utilities	57.6	35.1	36.2	35.6
3 Radio (1927 Cl.—100)	12.9	7.9	10.3	9.8
9 Railroad Equipment	53.2	34.3	47.4	45.0
22 Railroads	13.6	7.2	7.8	7.2L
2 Realty	2.7	1.2	1.7	1.7
2 Shipbuilding	119.9	73.5	113.2	119.9R
11 Steel & Iron	91.8	59.6	82.9	79.3
2 Sugar	32.7	17.3	21.3	19.5
2 Sulphur	184.9	135.4	183.5	184.9H
3 Telephone & Telegraph	47.5	30.5	36.0	36.7
4 Textiles	57.3	36.2	48.0	36.9
4 Tire & Rubber	15.3	8.4	10.9	10.9
4 Tobacco	90.2	69.3	70.6	69.3x
4 Traction	43.5	32.7	41.9	41.9
4 Variety Stores	248.3	177.2	208.4	203.9
20 Unclassified (1939 Close—100)	103.9	67.3	83.8	73.6

R—New all-time HIGH. H—New HIGH since 1934. L—New LOW record since 1929. x—New LOW this year.

Answers to Inquiries

(Continued from page 329)

mately 44 per cent in net earnings for the first nine months of 1940.

The company is one of the smaller units in the oil industry, chiefly a producer of crude oil, with operations centering mostly in and around Texas. The recent purchase of the half interest in additional oil properties formerly owned by the Ohio Oil Co. tends to increase reserves for future operation and additional property for the future expansion.

Since Texas Pacific Coal and Oil Company is primarily a crude oil producer it is only natural that earnings closely follow prices for crude oil. Since 1933 the management has been endeavoring to consolidate operations and activities by eliminating scattered and unprofitable units. Refining operations were greatly curtailed while emphasis was centered upon the development and expansion of crude reserves. Year end stocks of crude oil have shown a marked decline since 1929 while domestic demand has increased. The output of crude oil is controlled by proration. Since this company operates mostly in Texas and the allowables set by the Texas Railroad Commission have been enforced, it is not sufficient for the stabilization of national prices, for some states do not restrict production at all.

The affect of war and expansion of U. S. Government mechanization program could have a favorable bearing upon earnings of companies in the crude oil field. It must be remembered however that it would be very easy to check any wild price advance by just revising proration restrictions. Companies with properties located within our boundaries are in a preferred position, especially where one takes into consideration the limited shipping facilities. Bottoms, or boats, to transport oil from South American fields are not numerous and as a result with any marked increase in military consumption of gasoline for the training of our proposed expanded air force and increasing mechanized forces, the future for domestic oil companies could show a material improvement. Advancing industrial activity as well as increasing domestic consumption accelerated by large purchasing power could also contribute to increased earnings for companies such as Texas Pacific Coal & Oil.

The stock of this company can not be considered as an investment. It does however, offer some speculative appeal with a possibility of improved earnings and higher price levels.

United Drug

Would you recommend the purchase of United Drug at its present price of 4⅝? I am interested in this stock's possibilities, but before making any commitment I would like a report from your analysts. I understand this leading company is ready to stage a dynamic comeback, and would like to know the status of its manufacturing operations and current sales of its "Rexall" brands. I would also like to know whether sales of the company-owned Liggett and Owl drug stores have materially improved; and to what extent profit margins and earnings have increased since September. —F. McM., Richmond, Va.

The stock of United Drug Inc. has recently reached a new low level of 3¾. Its price trend has shown a persistent decline in recent years. Since it was separated from Drug Incorporated, the head or controlling company for several divisions operating in the allied field, its earnings have been far from favorable. Dividends were paid in only two of the years from 1933 to date, namely, 1936 when 75 cents was paid and in 1937 when 50 cents was distributed. Earnings for this period have been 46 cents in 1933; $1.32 in 1934; $1.10 in 1935; $1.52 in 1936; 97 cents in 1937; 38 cents in 1938 and 79 cents in 1939. For the first nine months of 1940 the company earned 7 cents as compared with a loss of 2 cents for the same period of 1939.

Common stock outstanding is not excessive but at the close of 1939 there was approximately $34,000,000 of 25-year 5 per cent debenture bonds in the hands of the public. The large proportion of capital funds represented by bonds constituting a prior lien on all future earnings tends to dampen any enthusiasm for the common stock especially in view of the declining trend of earnings. If the earnings were not so unimpressive the comparatively heavy funded debt would act as a favorable leverage influence on the common stock.

United Drug Inc. is one of the largest in its field, engaged in production, wholesaling and retailing a wide line of drugs, confections and other products carried by the modern drug stores. There are approximately 650 Liggett and Owl drug stores located throughout the United States and Canada which are owned by the company. This division accounts for about 70 per cent of total sales. In recent years it has been the policy to franchise Rexall stores in the United States, England, Ireland and Canada. Through this group of about 11,500 stores they account for about 30 per cent of total sales. The old fashioned drug store has virtually disappeared and the modern version is a young department store. What effect this new trend of expansion and diversification will have on future earnings is problematical.

The financial position of the company remains strong. As of December 31, 1939, the last available statement on the financial position of United Drug Co. the ratio of total current assets to total current liabilities was about 4.7 with cash alone of $8,934,885; net working capital was $25,654,515.

Future profit possibilities are dependent solely upon the public reception to the companies "new era" drug store and profit margins on the varied list of products sold by the company. If a commitment in the stock is contemplated it should be placed only as a speculation. It is our opinion that even though profits in this kind of business tend to fluctuate with the rise and fall of business in general, funds could be more gainfully employed elsewhere. For one who now owns the stock retention of moderate commitments is advised pending a more favorable price level.

Lambert Company

Do you consider the prospects for Lambert Company such as to now warrant adding to my 100 share investment (bought at 23⅛) at current levels. Is the company at a stage where its diversification program, including such products as shaving cream and cough medicine, and intensive promotional efforts should begin to show up in greatly improved earnings? What is the present status and outlook for the company's line of "Listerine" products. Have lower selling prices bolstered volume? Is Lambert in a position to benefit from the Red Cross activity . . . . and the U. S. conscription program? Kindly benefit me with your advice.—Dr. J. B., Toledo, Ohio.

To evaluate the future prospects of Lambert Co. it should be well to examine it in retrospect. Peak operations were reached in 1930 when

earnings available for dividends were $7,132,413. During that year aggregate dividends were $5,972,166 or $8.00 per share. Earnings in subsequent years have shown a persistent decline. In 1938 earnings registered a small gain, the first over any preceding year since 1930. The earnings for the former year, 1938, were only 18 per cent of the 1930 total, while dividends of $1.50 per share were 18.7 per cent of 1930 distributions. It appears that a base level of operations may have been established but to say that competition from other companies in this field, new products or a further lowering of profit margins will not materially affect future results is extremely hazardous.

The company is untiring in its efforts to broaden its field of operation and it is possible that such a program of diversification may bear fruit. It must be realized, however, that such a field is not conducive to a profitable and correlated expansion and diversification program. While it is generally assumed that there is a good margin of profit in toilet preparations the field is somewhat crowded and competition is keen. Intensive sales efforts and advertising campaigns as well as diversification of products is beneficial but still does not offer the only panacea to reinstatement of the former profitable operations of the company. An example of this contention is in Listerine, a well advertised antiseptic. Prices have been reduced—advertising programs instituted but the result is almost the same, namely, competitors meet the challenge and earnings do not show the desired increase.

It does not seem likely that the U. S. conscription program will materially aid the earnings of Lambert Co. It is possible however, that Red Cross relief purchases may help the company. Listerine is considered by some to have sufficient medicinal and antiseptic qualities to be used for slight abrasions, but such value to Red Cross needs would appear to be limited.

At the prevailing low price of the stock it does hold some speculative attraction. The dividend policy of the company has been liberal and should the trade and earnings position improve it is quite probable that stockholders would benefit. While we would advise retaining present holdings on a speculative basis, we

feel that additional funds could more gainfully be employed in companies in a position to share in the rearmament program and general business expansion now under way.

J. C. Penney Co.

I have read many sporadic reports about the trend of sales for J. C. Penney since the company reported $2.24 per share for the six months ending June, 1940, as compared with $2.33 for the same period in 1939. To what extent have sales and earnings increased since June? What are its prospects for holiday business? Why does J. C. Penney continue to hold mid-way between its high and low for the year? What do you know about the income possibilities of the company's newly proposed Rochester Store in the face of Sears and Montgomery Ward's announced entrance into the Rochester market? How does Penney's possibilities compare with stores located mainly in big industrial areas benefiting from defense production? Kindly tell me how all branches are currently operating—how you evaluate the future appreciation and income prospects for these shares. My investment amounts to 50 shares at 94.—T. T., Jamestown, N. Y.

The first six months net earnings of J. C. Penney Co. gave a good example of the increasing loads borne by business in general. Gross sales for this period increased approximately 8.3 per cent while cost of sales increased about 8.2 per cent. Labor costs began to show a slight increase due to an advancing trend of living costs and agitation by labor organizations for higher wage scales. Taxes, however, are becoming ever more burdensome and as compared with the like period of 1939 the increase was slightly less than 30 per cent but as compared with the same period of 1938 when sales were only about 16 per cent less, taxes have risen almost 76 per cent.

These basic trends are not on the face at all comforting but when it is realized that the second half of the year is the most favored for earnings due to the holiday season the comparison should be more optimistic. Normally first half sales account for only 40 per cent of the total yearly sales. On this basis, second half sales usually run almost 50 per cent over the first period. Sales should record substantial gains due to an increased and more widely diffused purchasing power. Unemployment statistics continue to decline and this factor, if accelerated, will loosen a pent-up demand for merchandise found in the many stores of J. C. Penney Co. The trend of prices is very important. It is the general experience that with an increased price level unit profits tend to contract while gross dollar sales advance. The company's policy of catering to purchasers in the medium income brackets however lends a degree of stabilization to results.

The management has pursued a policy of selectivity in the acquisition of new locations. This program has been made possible by the fact that stores are leased and not as a rule owned. If a certain store does not prove profitable it is soon eliminated. The decision to enter the Rochester, New York, district is in conformity with an effort to tap the larger market centers. It is not felt that the competition from other chain stores will prove a barrier to profitable operations. In the past company's stores have been located in cities of medium size but the current policy is to select cities with a larger population such as San Francisco, Los Angeles, St. Louis and others. The stores in the larger centers will, of course, have to carry a wider variety of merchandise but emphasis will still be on goods of medium grade.

It is our belief that the future outlook for the J. C. Penney Co. is favorable, in fact more so than the average of other companies operating in this field. When second half results are reported it is quite possible that the market value of the stock will reflect the favorable earnings and trade position of the company. The company has just declared a dividend of $2.00 per share, bringing the total for the year to $5.00.

National Tea Co.

Would you say that at its current price around 4, National Tea offers unusual possibilities for appreciation? I have a friend who owns 175 shares of National Tea acquired at 15¼ and urges me to buy 100 shares, believing that National Tea is a bargain at its current price. Please tell me whether you counsel such a purchase now . . . whether the rate of profits shown by the company of late should continue into 1941 . . . and to what extent National Tea is benefiting from bigger payrolls paid to workers in National Defense industries. Are taxes likely to cancel recent sales improvement? What about competition? Apart from your answers to the above, do you favor investments now in such a stock when the greatest possibilities seem to exist in companies engaged in industries essential to defense?—Mrs. M. O., Topeka, Kansas.

In November of this year the National Tea declared a dividend of 55 cents on the 5½ per cent cumulative preferred stock. This action attests to the somewhat improved earnings of the company. Giving effect to this declaration there was however, $1.10 accumulation still unpaid on this issue. For the first 48 weeks of 1940 sales were 8.6 per cent above the corresponding period of 1939. Earnings for the first 40 weeks of 1940 were 12 cents per preferred share as against a loss of $4.62 for the like period of 1939. The common stock for the same period showed a loss of 7 cents and $1.18 a share respectively.

As of November 30, 1940, the company had in operation 1062 stores as compared with 1075 a year earlier. These stores operate in the retail food field. Some 400 of the 1062 are of the combination type, maintaining meat departments. A few motor routes are operated in addition to the stores. Business in the Chicago area has shown a marked improvement over 1939 and the chain-stores group is no exception. It is believed that retail consumer demand will continue throughout the winter, paving the way for improved earnings to continue at least into the first quarter of 1941. The inauguration of "super markets" is proving profitable as they are meeting a public demand for large well diversified stores.

At the close of 1939 when the last financial statement was published the financial position was favorable. Total current assets of $5,926,401, including $1,677,405 cash, compared with total current liabilities of $2,658,092. At that time the equity was $15.48 per share. The capitalization of the company is conservative with $606,163 of funded debt, 143,107 of 5½ per cent cumulative preferred stock and 622,650 shares of common stock outstanding.

There are, of course, favorable and unfavorable factors besetting National Tea. Taxes are expected to increase but not to a burdensome extent. Increased purchasing power resulting from the improving industrial outlook tends to act as a counterbalance to higher taxes. Whether increased sales and improved profit margin will offset increasing tax loads is of course a continuing question. Competition in the retail store field is keen and probably will continue.

At its current deflated price it appears that the stock of National Tea

offers a fair speculation but it would seem that their improvement would be indirect resulting from the increased heavy industrial output. Consequently it is our belief that while current modest commitments may be held there are other situations where new funds may be more gainfully employed.

New Jersey Zinc

Do you believe it wise to dispose of my 75 shares of N. J. Zinc, bought at 65, now that it has topped its high for the year, or, do you believe that this stock has just begun to discount its favorable outlook? I am worried about the extent of this company's vulnerability to excess-profits taxes and would like you to report its position under this levy. Will you kindly tell me whether armament orders are still being received by New Jersey Zinc . . . whether its resources are such to fulfill the demand without greatly increasing costs of production. Also inform of the trend of profits as gauged by the present price of zinc. How are sales and earnings being maintained in the company's paint, tire and general industrial markets? Your advice will be appreciated.—T. L. U., Tulsa, Okla.

It is rather difficult to determine how vulnerable N. J. Zinc is to excess-profits taxation since it does not publish a balance sheet. Using the average earnings base for computation, it is possible that the company will net approximately $3.50 per share for all of 1940. For the first nine months the company earned $2.61 per common share as compared with $1.79 for the same period of 1939. These results are after depreciation, taxes and other usual charges.

The company is the largest domestic producer of zinc, having properties in New Jersey containing high-grade zinc ore, lead-zinc mines in Virginia, silver-copper-zinc mine in Colorado and smaller properties in Wisconsin and New Mexico. About half of the output is sold mainly to tire and paint manufacturers. The average monthly output of zinc for 1939 was 10,500 short tons using an estimate for output in New Mexico as compared with the estimated current rate of 12,000 short tons. The technical position of domestic zinc is favorable. Production was up about 24 per cent, deliveries advanced approximately 23 per cent while producers stocks at the end of the period showed a decline of almost 68 per cent.

The price level of zinc is in an advancing trend. There is a 1.4 cent tariff on zinc which, under normal conditions, would be adequate protection for domestic producers since our price usually runs about one cent over foreign prices. But with increased demand and production our stocks are declining. Therefore, if a tight price situation develops it may make it possible to import zinc, which could create a ceiling for prices. In view of these statistics it does not appear likely that consumption will decline nor demand diminish. Consequently a price recession is not likely at least for the near term. A decline in prices would, of course, affect the future earnings of New Jersey Zinc Co.

The capital of the company consists solely of 1,963,264 shares of common stock. While the financial position is not reported it is believed that it is sound. The dividend policy has followed a liberal trend and it is felt that such a procedure will be continued. Consequently it is our belief that commitments should be retained in view of the record levels of production and high rate of business activity.

American Chain & Cable

Rising from its low of 13½ to its present price of 20½ do you believe that American Chain has completely discounted current and near term future earnings improvement? Have any additional armament orders comparable to the recent Navy contract been received? Are U. S. Defense orders primarily responsible for the company's business expansion? Have sales of Weed chains already responded to approaching winter season? What about the growing competition from less expensive non-skid chain devices and skid-proof rubber tires? What is the earnings outlook from sales to the railroad, mining and plumbing industries? Would you advise continued retention? Or should I sell now with some assurance that I can buy back at lower levels? My holdings amount to 100 shares bought at 27¾.—P. L., St. Louis, Mo.

American Chain & Cable is closely geared to heavy industry, manufacturing a complete line of chains. In addition, it produces a wide variety of automobile accessories and parts, wire fences, welding rods, steel and malleable iron castings, air compressors, hoists, razor blades and many others. Patents owned are numerous and income received from their use by other manufacturers is substantial. Since the general trend of sales is closely linked with business in general earnings should expand with industry operating at record levels.

DIVIDEND NOTICES

New York, N. Y.
December 17, 1940

Philip Morris & Co. Ltd., Inc.

There has this day been declared a regular quarterly dividend of 75¢ per share on the Common Stock, payable January 15, 1941 to holders of Common Stock of record at the close of business on December 27, 1940.

L. G. HANSON, Treasurer.

DIVIDEND

ARMOUR AND COMPANY OF DELAWARE

On December 3 a quarterly dividend of one and three-fourths per cent (1¾%) per share on the Preferred Capital Stock of the above corporation was declared by the Board of Directors, payable January 2, 1941 to stockholders of record on the books of the Company at the close of business December 13, 1940.

E. L. LALUMIER, Secretary.

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

December 13, 1940

THE Board of Directors on December 11th, 1940 declared a dividend at the rate of 50c. per share and an extra dividend of $1.00 on the outstanding Common Stock of this Company, payable on December 31st, 1940 to stockholders of record at the close of business on December 20th, 1940. Checks will be mailed.

DAVID BERNSTEIN
Vice President & Treasurer

UNITED FRUIT COMPANY

DIVIDEND NO. 166

A dividend of one dollar per share on the capital stock of this Company has been declared payable January 15, 1941 to stockholders of record at the close of business December 19, 1940.

LIONEL W. UDELL, Treasurer.

For the first six months of 1940 earnings on the common stock were reported to be $1.04 per share as compared with 53 cents for the like period of 1939. In the past ten years operations have been profitable in all save three years—1931, 1932 and 1933. Sales for 1939 totaled $24,-267,617 as compared with $19,079,-931 for 1938. There is a favorable leverage factor as is brought out by the relations of net sales to net income. In 1939 net sales were about 27 per cent higher than 1938 but net income in 1939 was more than 167 per cent over 1938. Sales in the first half of 1940 were about 17 per cent greater than the like period of 1939—net income registered a 75 per cent increase.

The capitalization of American Chain & Cable Co. is well balanced. There is no funded debt. Stocks outstanding are represented by 56,919 shares of 5% cumulative convertible preferred stock and 989,529 shares of common stock. Financial position at the close of 1939 was strong with total current assets of $12,860,805 including cash of $2,663,-154 compared with total current liabilities of $2,224,992. Net working capital amounted to $10,635,813 while equity per common share was $13.40 at that time.

This company does not appear to be in a position to benefit directly from our rearmament program. Sales in the railroad, mining and plumbing fields should continue to increase in more or less direct proportion to increasing consumer demand. The stock can not be considered primarily a "war baby" but an average industrial issue with a good future. Consequently, we advise the retention of your present commitment.

Behind the Scenes With Our 1941 Congress

(Continued from page 309)

exports. There is a strong movement for government price-fixing of farm products, whether by commodity loans or by the income-certificate plan or by virtually making the government the middleman between farmer and processor.

All in all, the trend is still definitely toward more federal control of business and of the individual. Congress will hold back on some things, plunge ahead on others, but the defense crisis is accelerating rather than checking the trend.

Allegheny Ludlum

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par common stock outstanding. Dating from the merger of Allegheny Steel and Ludlum Steel in 1938, consolidated net sales in that year equalled $18,261,231, and a deficit of $1,070,186 was incurred. The 1939 upswing brought net sales of $37,332,141 and net income of $2,093,518, equal after preferred dividend requirements to $1.49 a share on the common stock. For the first nine months of this year net income is computed at $2,781,285 after Federal income taxes at the rates established by the Second Revenue Act of 1940 and after allowing $412,588 for excess profits taxes. This was equivalent after preferred dividend requirements to $2.07 a common share, compared with $0.40 a share in the first nine months of 1939.

Estimated 1940 net income before additional 3.1% normal and excess profits taxes is around $3.50 a share, and after the additional 3.1% normal and excess profits taxes the estimate is around $2.50 a share, computing the excess profits tax on the basis of the invested capital option.

The 1941 prospect, as judged from current fundamentals, is for a heavy volume of business — larger than 1940, depending in some degree on how much plant expansion is undertaken. The actual net income per share, in view of the company's vulnerability to the excess profits tax and the outlook for increased normal taxes may not surpass that of 1940 (if it does at all) by a great margin.

The present year's dividend payments of $1.50 a share annually, compared with $0.50 in 1939, do not appear out of line with prospects and such a rate seems secure in the light of the company's finances. No recent balance sheet has been published, but it is significant that as of December 31, 1939, the company's ratio of current assets to current liabilities was almost three to one. Cash was listed at $860,271, marketable securities at $213,838 (cost), inventories at $11,056,757 and total current assets at $16,742,725. Current liabilities were carried at $5,-789,690, including notes payable of $450,000. The company's net working capital showed almost a $2,000,-000 advance over that of the preceding year.

Exceptional activity in 1940 undoubtedly has created the need for larger working capital, but the fact of $1.50 dividend payments this year in the face of this greater need shows that the company had no difficulty in this regard.

Under the excess profits tax yoke and in consideration of the volatile nature of the steel industry, Allegheny Ludlum common stock (currently selling around 24, or about 2½ points under its high of the year) is hardly to be regarded as a scintillating attraction at present. Its appeal must be viewed, however, in the longer term light of the growth possibilities of its specialty steels—"Pluramelt" in particular—and because of the promising potentialities in these fields, the stock may reasonably represent a speculative portion of that part of the average investor's portfolio devoted to longer future growth of new or relatively new products.

Evaluating U. S. Rubber Under Today's Conditions

(Continued from page 323)

synthetic rubber production may be expanded.

Results for the first half of 1940 indicated that earnings for the full year probably would drop below those of a year ago. During the first six months, net income was about $430,000 lower than a year ago, due mostly to the inclusion of heavier tax reserves. Since then, however, the volume of business has increased and somewhat better prices have been placed in effect. Accordingly, it is likely that 1940 net will be fairly close to the $2.91 a share reported for 1939.

The fact that the company is dependent upon foreign countries for

all of its basic raw material requirements and that it has substantial financial investments in such countries will continue to find reflection in the market action of the shares. On that basis, the shares contain an unusual element of speculative risk as a medium for trading. There are, however, sufficient intrinsic value and earning power present to make the sale of shares already owned unadvisable. On a basis of purely longer term speculation, the shares appear to be reasonably priced and definitely attractive if one is willing to ignore potentially violent short term fluctuations.

Next year should be one of better than average earnings for the company. The recently opened office in Washington indicates how closely the company is working with the Government. Unless the tax schedules are again revised sharply higher it is probably that the company will earn sufficient next year to permit the payment of some common dividends and thus place the stock on an income basis for the first time since 1921.

Are the Utilities Oversold?

(Continued from page 320)

ing from any future adverse economic trend.

In the cases of preferred stocks of operating companies, wherever a fair return on true property value provides sufficient earnings, after deduction of fixed charges, to cover preferred dividends by a fair margin, the position of the preferred stockholder is materially improved by rate reduction to limit earnings to a so-called "fair return." The same principle stated above in regard to bonds is equally applicable to preferred stocks of operating companies. Earnings are likely to become more stable at the lower rate level and to offer a greater resistance to decline.

As for common stocks of operating companies, application of the "fair-return" idea makes for a definite ceiling of earnings. While this largely removes one of the principal attributes of a common stock, whatever earnings under normal circumstances are available under a principle of "fair return," after allowance for charges and preferred dividends,

possess a stability difficult to duplicate among most of the major industries.

With regard to holding company securities on the "fair-return" base, where the capitalization of subsidiaries is relatively conservative and wherever a fair return on subsidiary property value would allow sufficient earnings in excess of subsidiary charges and preferred dividends to cover the fixed charges of the parent company, the stability of the parent company revenues and interest coverage would be greatly improved. Holding company stocks in most cases represent a capitalization based on the anticipation of subsidiary earnings greatly in excess of fair return on the true property value. As such, they are in the majority a pure speculation on market trends, but they frequently outrun the averages in either direction by a wide margin.

Significance of the rate base in the utility outlook has led us to discuss the "fair-return" angle in detail, since it is at the root of the rate question. The subject carries, however, into current plans for expanding plant and property. Since rearmament may produce an electric power shortage of 1,500,000 kilowatts in key industrial areas of the nation by 1942, according to a report submitted to President Roosevelt by Leland Olds, chairman of the F P C, the electric power and light industry is endeavoring to expand at the highest rate since 1930. Preliminarily, it would appear that the industry will enter the year with a construction budget of over $700,000,000 for 1941. This would compare with about $640,000,000 for this year and would be the highest such figure since 1930, in which year former President Hoover induced a pump-priming construction spree that brought expenditures of about $920,000,000.

Naturally, this leads to the question of cash requirements for such expansion and the relationship of these cash requirements to dividends. If the plentiful idle funds of banks can be tapped without regulatory authorities imposing restrictions on dividends, then it is likely that utility executives will try to maintain dividends, particularly where such disbursements may be of hair-line importance to the holding company which may control, or have a large interest in, the organization involved.

Foregoing analytical factors considered, our conclusion on utility securities is that pessimism regarding many of them has gone to undue extremes. It is true that inevitably higher taxes for 1941 will bring lower dividends in some instances, particularly by those companies not operating in heavily-industrialized areas. A few companies which might be constrained by rising costs and inflexible rate structures to reduce common dividends in 1941 are Boston Edison, Consolidated Edison, National Fuel Gas, New York City Omnibus, Pacific Lighting, Public Service of N. J. and U. G. I. On the whole, however, it may be noted that the industry is generally exempt from current excess profits taxes, it still has far to go (in the main electric light and power division) to reach its saturation point, regulatory bodies in the aggregate have not resorted to heavy "cracking down," and post-election liquidation has washed prices down to a level in many cases (such as American Gas & Electric, Commonwealth Edison, El Paso Natural Gas, North American and Pacific Gas & Electric) where attraction exists on the basis of a liberal income return in a great, indispensable industry, although major appreciation is not to be expected and there can be no guarantee that prices even of the soundest utility equities will not work a bit lower.

Weighing Impact of 1941 Taxes on Corporate Earning Power

(*Continued from page* 307)

cal per share of common stock.

Coal

The invested capital base of the coal industry gives the group as a whole considerable leeway before vulnerability is reached. Exception here is Island Creek, with a $1.45 per common share invested capital base credit. Containers on the whole are a vulnerable section; American Can's invested capital base credit per common share is $4.12, Continental's is $2.94 and Owen's Illinois $2.19.

Electrical Equipment

Another group which on the whole would not fare well under the new excess profits tax proposals is the electrical products stocks. General Electric's $0.94 per share credit on an invested capital basis reveals its vulnerability, as do the bases of $2.13 a share for Chicago Flexible Shaft and $6.00 for Westinghouse. The finance companies present a mixed picture, Beneficial Industrial Loan showing weakness with only a $1.60 per common share capital base credit. Household Finance is another fairly vulnerable spot, with Commercial Credit and Commercial Investment Trust among those earning somewhat under the tax allowance.

Foods

Foods present a number of companies on both sides of the fence; Borden, General Baking, Loose Wiles and United Biscuit are among those which can earn more without paying excess taxes under the invested capital option. On the other hand, the proposed confinement of excess profits taxes to the invested capital base would be harmful to such companies as Beech-Nut Packing, with only a $3.50 per share invested capital base credit and an average earnings base credit of $5.65; Hershey Chocolate, with a low invested capital base credit of only $0.30 a common share and an average earnings base of $1.90; and National Diary Products, with bases of $1.55 for capital and $1.71 for average earnings per common share.

Machinery

Machinery companies as a whole are in a weak position from the excess tax viewpoint, machine tools in particular being among those issues most keenly affected. Ex-Cell-O Corp., for example, has a puny invested capital base credit of $0.75 a share, compared with estimated net income this year (on the basis of 1939 taxes) of about $7.50 a share. Similarly, Sundstrand Machine Tool has an invested capital base of only $1.00, while its earnings based on 1939 taxes would approximate $15.00 a share this year. The excess profits tax in 1940 gives indication of absorbing the equivalent of $5 or $6 a share of the company's income. This,

of course, is an extreme example; however, there are many low invested capital bases in the machinery industry, among which are Caterpillar Tractor with $1.75 a common share, Deere with $1.70, Ingersoll-Rand with $3, and National Acme with $0.80.

Restriction of excess profits taxes to the invested capital base will not harm the meat packing industry, which has a large capital foundation. Thus, among the leaders, Cudahy has a $6 per common share credit, Swift $3.43 and Wilson $1.50. Medicine and drug companies, already heavily burdened in most instances by excess profits taxes, would incur more troubles if the excess profits tax base would be confined to invested capital. For example. American Home Products this year is choosing the average earnings base as its tax option (equal to $3.80 a share); its invested capital base credit is a bit under $1 a share. Among other prominent companies, Bristol-Myers has only about $1 per share invested capital base credit, Parke-Davis $0.62 and Sterling Products $2.05.

Metals

The non-ferrous metals and metal-fabricating companies represent a mixture of numerous high and low invested capital bases. Gold and silver stocks are in an unfavorable spot because of low capital bases and they would suffer under tax confinement to the invested capital base. This change would make little difference to the majority of metal fabricators, most of which are already subject to excess profits taxes. The copper mining group generally is in a favored position, with a high invested capital base, though there are a few exceptions with relatively low capital base credits, including Kennecott ($2.63 a share) and Magma ($1.65 a share).

Most of the paper companies are hit hard by excess profits, with a few exceptions, such as Great Northern and West Virginia Pulp & Paper. International Paper is marginal, with an invested capital credit around $4.30 a common share.

Retail trade companies are a mixture of payers and non-payers of excess profits taxes. Allied Stores, Grant, Kresge, Marshall Field, May, Montgomery Ward, Penney, Safeway and Western Auto are among prominent payers with relatively low bases, while the non-payers include Macy, Barker, National Tea and Shattuck. Shipping and shipbuilding companies likewise consist of a mixed tax group; the more vulnerable companies include Bath Iron Works and New York Shipbuilding, with American Shipbuilding and Todd Shipyards among the high invested capital base issues.

For Profit and Income

(*Continued from page* 333)

provision for excess profits taxes in the latest report.

Backlog at the end of September amounted to $95,000,000, against $37,000,000 at the first of the year. Vincent Bendix, president of the company, explained that almost 40 per cent of the unfilled orders are on direct work for the Government. Many more contracts with the Government remained to be negotiated on that date and, even more important, many manufacturers of defense equipment who had Government orders had not yet placed their contracts for Bendix parts.

Aircraft guns, turrets, fire control equipment and gun sights are among the new items being undertaken by Bendix. The company is expanding rapidly with R F C aid, hoping to add perhaps 18,000 employees to its payrolls in 1941.

How Can Britain Pay Us for Financial Aid?

(*Continued from page* 315)

be made either in similar war goods or possibly in useful peace-time goods. Proposed by President Roosevelt. Would eliminate collecting of debts in money, but would undoubtedly be opposed by industry and labor.

As times goes on, the question of financing aid to Great Britain will undoubtedly tend to become more a political than an economic issue. Even if the minority of Americans who still feel that Great Britain is fighting, first and foremost, for the preservation of the Empire, are able to impose their will in demanding cash on delivery, a way might possibly be found for cashing some of the vast resources of the British Empire. It will take a long time before Britain would be stripped of all her wealth that could be turned into dollars or gold.

A recent Gallup poll, however, indicates that the majority of Americans regard Great Britain as fighting *our* battle as well as her own, and that financial help rendered now will save *us* many billions of dollars for future armament expenditures and for post-war reconstruction. To these Americans, it does not really matter whether wisely-given "all aid short of war" is eventually paid for in securities or gold or goods or, if the struggle is prolonged, not paid for at all.

As President Roosevelt has pointed out, the question of financing aid to Great Britain will be ultimately for Congress to decide. The fact that it is already being discussed actively should give the country enough time to reach a deliberate solution, and help throw light upon the effects of such help upon our economy and upon post-war reconstruction. It has often been said that the present struggle in Europe is a

revolution as well as a war, and that accordingly it calls for new methods, new attitudes and new, perhaps startling, measures. When the question of aid to Great Britain is put before Congress next month, let it be hoped that it will exercise wisdom and vision of the highest order in deciding upon the best course of action for the United States.

Measuring Inflation Controls

(*Continued from page* 312)

standard of living either to obtain armaments in the necessary volume or to prevent price inflation. It *is* possible to look forward to a time when we may have to restrict our desires as regards new automobiles and other durable goods economically similar in character. We can do so—and scarcely feel the difference.

Meanwhile, don't lose any sleep fretting about inflation. It appears to be some distance around the corner—and ample means of control are on tap.

Investing for Safe Income in 1941

(*Continued from page* 317)

income investor as rank heresy and a policy fraught with hazard. But it should be borne in mind that investment today must be undertaken on an emergency basis and policies formulated "for the duration." In a war setting there is no such thing as a "long term" investment, a very loose term at best. Consider the case in favor of selected cyclical common stocks.

Included among such issues are the shares of companies which have already shared handsomely in war orders, whose 1940 earnings have set new records and dividends have kept pace. Results next year promise to be even more impressive. It is true, of course, that taxes will take a substantial cut of increased earnings, but actually many of these companies, particularly those with a modest capitalization, will still be able to show large per-share earnings and adjust dividends accordingly. Even if stockholders of these companies can expect to share little better than 30 per cent of any increase in earnings, at least this is much better than having earnings and dividends pared by higher taxes.

At this point the income investor might well raise the question as to the possible consequences to his portfolio, in which a number of cyclical issues are held, should the war end and peace be declared within the next few months. Such a possibility admittedly cannot be lightly cast aside. Yet at the same time there is no positive basis for assuming that such a contingency would mean the immediate cessation of our own national defense program, large-scale cancellation of war orders and a nose dive in security prices. Much would seem to depend upon the circumstances under which peace is concluded. In the meantime, however, the realities of the situation lend substantial support to the adoption of the procedure suggested above, at least on a modified scale.

Another method of maintaining income, and one which may have more appeal for the conservative investor is the diversion of some portion of funds to preferred stocks. The best grade preferred stocks, like high grade bonds, are selling at their all-time high and for the average individual offer scant inducement from the standpoint of income. Among second and medium grade preferred stocks, however, it is possible to find a choice of issues with a good record of dividend coverage and which are selling on a basis to yield an attractive return. Although this class of investment is by no means immune from day-to-day market movements, they can, for the most part, be counted upon to offer some measure of resistance during periods of general liquidating pressure. A selected list of preferred stocks accompanies this discussion. The choice of these issues has been determined largely by the relative ability of the companies to provide improved coverage for preferred dividends over the months ahead.

In addition to the fact that high grade bonds, because of the extremely low yield available on this type of investment, are unattractive for the individual investor, many of these issues are currently selling above their call price. This premium in not a few instances is equivalent to nearly a full year's interest. With many companies taking advantage of low interest rates to refund outstanding bonds and debentures with lower interest bearing securities, the purchase of high grade bonds above their call price incurs considerable risk of capital loss.

As in the case of preferred stocks, however, opportunities for profitable investment for income are to be found among medium and second grade bonds, particularly in the case of funded obligations of companies likely to be favored by defense spending and armament orders. Moreover, the investment case in favor of second grade bonds of this type is strengthened by the fact that any improvement in earnings is fully available for fixed charges. Taxes, both normal and excess profits, are levied against earnings *after* all interest charges. The marginal bonds of railroads which appear in a position to move substantially larger volume of traffic over the coming months, either directly or indirectly as a result of defense spending, hold out the promise of both a liberal yield and a measure of price enhancement.

A natural reluctance on the part of many investors to revise their holdings along the lines herein discussed is understandable. Yet the circumstances today are such that a do-nothing policy is extremely dangerous. A leaking ship may ultimately reach port safely, but in the meantime it is always a good idea to make sure that the life boats are sound and ready.

Another Look At . . .

(*Continued from page* 331)

position and increased sales and earnings. Sales and earnings over the coming months in all probability will record important gains both as a result of defense orders and increased takings on the part of the automobile industry. Dividends in 1940 were maintained at the rate of 75 cents a share quarterly, and if the characteristic market inactivity of the shares is of no consequence, they offer rather interesting inducement both from the standpoint of income and possible price appreciation. Recent quotation 54, 1940 high 60, low 34⅞.

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